

DIARY

Book 144

October 1 - October 7, 1938

- A -

	Book	Page
Anglo-California National Bank (San Francisco)		
Investigation discussed at 9:30 meeting - 10/7/38.....	144	242
a) Upham explains make-up of investigating committee: Kahn (President, Street Railway Company); Reis (President, Eldorado Oil Company); and Waymann (insurance company president)		
b) Mortimer Fleishhacker (Chairman of Board) has asked to see Foley; Upham disapproves; others think it better to "keep door wide open"		

- B -

Barter		
See China		
" Germany		
Budget		
Charts: Estimated Federal receipts by principal sources, at various assumed levels of national income (Haas to Hanes to HMJr) - 10/7/38.....		321
Burgess, W. Randolph		
Letters of appreciation to and from HMJr.....		4
Business Conditions		
Haas memorandum for week ending 10/1/38.....		75

- C -

China		
German barter agreement concluded at end of 1934: memorandum presented by Chinese delegation to Treasury - 10/3/38.....		103
Meeting of Federal Surplus Commodities group, Chinese delegation, and Haas, concerning possibility of exchange of wheat or wheat products for some products of China - 10/5/38.....		104
Possible agreement discussed between Chinese delegation and Treasury - 10/6/38.....		177
a) Cable from Kung hoping United States Government can arrange wheat loan.....		206
b) Transportation system discussed by HMJr and Sumner Welles.....		211
1) See Buck memorandum on Yunnan railroads, et cetera.....		145
Conference between Treasury group and Chinese delegation; also present: Moffett and LeFevre, of California-Texas Oil Company; and Parker, of Socony Vacuum Export Company - 10/7/38.....		279, 306
Tung oil report - 10/5/38.....		103
Pittman (Senator, Nevada) letter concerning purchases of silver - 10/5/38.....		106

- C - (Continued)

	Book	Page
China (Continued)		
White memorandum: "Action recently taken by League of Nations re Sino-Japanese hostilities" - 10/6/38...	144	132
Buck memorandum on Yunnan currency and silver reserves, railroads, et cetera (pictures) - 10/6/38.....		145
Map of China showing railways, telegraphs, and treaty ports.....		305
Comptroller of Currency		
Farley and HMJr discuss transfer of Diggs and Oppergard to Federal Deposit Insurance Corporation (HMJr describes talks with FDR) - 10/1/38.....		20
Audit discussed at 9:30 meeting - 10/6/38.....		159
Czechoslovakia		
See War Conditions		

- F -

Fiscal and Monetary Advisory Board		
See National Resources Committee		
Fleishhacker, Mortimer		
See Anglo-California National Bank (San Francisco)		
France		
See also War Conditions		
Popular Banks: Cochran submits Rueff note on - 10/4/38...		102-A

- G -

Germany		
See also War Conditions		
Barter agreement with China concluded at end of 1934: memorandum presented by Chinese delegation to Treasury - 10/3/38.....		103
White memorandum: "Chronology of action relating to discrimination by Germany against the commerce of United States" - 10/6/38.....		214
Gold, Transportation of		
Shipments arranged and amounts still held in London - 10/4/38.....		92
Great Britain		
Resumé of new conditions arising out of crisis - 10/5/38.....		109

- L -

Lehman, Herbert (Governor, New York)		
See New York State Democratic Convention		

- M -

	Book	Page
Magill, Roswell		
Letters of appreciation to and from HMJr.....	144	1
McGuire, Constantine		
See Refugees		

- N -

National Resources Committee		
Communications from Delano concerning proposed Fiscal and Monetary Advisory Board; also memorandum of luncheon conference - present: HMJr, Delano, Merriam, Ruml, Bell, White, and McReynolds - 10/7/38.....		218
New York State Democratic Convention		
Farley and HMJr discuss success in persuading Lehman to run again - 10/1/38.....		18,23

- P -

Political Activities of Treasury Employees		
Resumé of correspondence between Senator Sheppard (Chairman of Special Committee of Senate to Investigate Campaign Expenditures) and Treasury.....		253
Popular Banks		
See France		

- R -

Refugees		
Constantine McGuire's plan for new state composed of French, British, and Dutch Guiana - 10/1/38.....		10

- S -

Sheppard, Morris (Senator; Chairman of Special Committee of Senate to Investigate Campaign Expenditures)		
See Political Activities of Treasury Employees		
Silver		
See China		
Social Security Board		
Treasury answer regarding maintenance in banks ***** of balances commensurate to the service rendered in connection with checks drawn upon benefit payment accounts ***** - 10/3/38.....		54
Stabilization Fund		
Use of fund to decorate Treasury rooms discussed at 9:30 meeting - 10/6/38.....		161
Surplus Commodities		
See China		
Switzerland		
See War Conditions		

- T -

Book Page

Tung Oil
See China

- U -

Upham, Cyril B.
Letters of appreciation to and from HMJr..... 144 4

- W -

War Conditions

Czechoslovakia:

Butterworth reports on second appeal to Great Britain
for financial assistance - 10/3/38..... 49

France:

Government measures to be taken to achieve immediate
improvement of financial and economic situation -
10/4/38..... 90,92,129

Germany:

American Embassy reports on Government finances as
result of "military preparations of the last
weeks and days" - 10/1/38..... 40,44,88,121

Switzerland:

American Embassy reports on steps to be taken in
the event of war - 10/1/38..... 38

Price Control:

Peoples report on meeting of Attorney General's
Special Committee - 10/3/38..... 60

a) Reports submitted by Procurement, Commerce,
and Agriculture

Oliphant report on meeting of Attorney General's
Special Committee - 10/3/38..... 97

Oliphant memorandum on conference on prices called by
Leon Henderson; present: Hopkins, Jackson, Cohen,
and Douglas - 10/4/38..... 102

Strategic War Materials: Peoples memorandum on trading
or exchanging surplus wheat for - 10/3/38..... 72

Gold, Transportation of: Shipments arranged and amounts
still held in London - 10/4/38..... 92

Chief of Staff memorandum No. 26 - 10/1/38..... 15-A

" " " " " 27 - 10/4/38..... 84-A

" " " " " 28 - 10/6/38..... 124-A

Copy

October 1, 1938

Dear Ros:

Now that the world crisis has passed, I hasten to answer your letter of September 1.

I wish to take this opportunity to express to you my deep appreciation of the great assistance that you rendered me as Under-secretary of the Treasury. You and I both know how difficult the last few years have been and it has always been a source of comfort to me to have you at my side to advise and guide me on tax matters.

It is most unfortunate that public service cannot be made sufficiently attractive for a man of your caliber to remain permanently with the Government. We need men like you.

My regret at seeing you go is tempered by the fact that I feel that I can call on you whenever necessary to come down and advise me on unusual and difficult problems.

Wishing you all kinds of continued success at Columbia University, I remain, as ever

Yours sincerely,

(Signed) H. Morgenthau, Jr. (?)

Dr. Roswell Magill,
35 Claremont Avenue,
New York, N. Y.

Copy
The Under Secretary of the Treasury
Washington

1st September 1938

Dear Henry:

While I still have two weeks in the Treasury, I want to write you a personal word regarding the pleasure and satisfaction I have had from our close association during the past two years. We have both worked under heavy pressure, you more than I; and there have been plenty of difficult decisions to make. I do not see how you could have done more to give me the best working conditions, and the best advice, assistance, and support. More than these, I have particularly valued your faith and confidence. I wish we might have accomplished more of a general overhauling of the tax laws, as we planned; and I still hope that it may be accomplished in your administration. I think we have made a decided advance in the decentralization of the Bureau; I shall be greatly disappointed if that does not work out to be the most important reform in administration which has been accomplished in many years.

I need hardly say that I wish you the best as an official and as a man. If I can give you any useful

- 2 -

service at any time, I hope you will let me know.

Faithfully yours -

(Signed) Roswell Magill

October 1, 1938

Dear Randolph:

I wish to thank you for your very kind letter of September 13th. I would have answered it long ago, but all my mail has had to wait until the world crisis had passed.

I felt a deep personal regret that you decided to resign from the Federal Reserve Bank. During the past four years that I have been Secretary, your assistance to me has been invaluable and I want to take this opportunity to express to you my real appreciation of the intelligent cooperation that you gave me. I cannot help but feel that it is unfortunate that public service cannot be made sufficiently attractive to permanently hold people of your character and ability.

Wishing you all kinds of success in your new connection, I remain

Sincerely yours,

(Signed) [Signature] (2)

Mr. W. Randolph Burgess,
National City Bank,
New York, N. Y.

Copy

THIRTY THREE LIBERTY STREET
NEW YORK

Sept. 13, 1938

Dear Henry

As I leave the Federal Reserve Bank today I wish I could say to you more precisely in writing what I have tried to say rather incoherently in person: that one of my keenest regrets in leaving this post is the interruption of the relationship you and I have enjoyed. To share with you in some degree in the public duty of financing the Government has been a responsibility, but it has also been an opportunity which I have welcomed. When such a service may be carried through, as it has been, in the atmosphere of mutual respect and regard it becomes one of the fine things of life.

My only hope is that I may continue from time to time to participate in this service and continue our personal friendship.

Very sincerely yours,

(Signed) W. Randolph Burgess

Handwritten initials and the number 6.

Confidential

STRICTLY CONFIDENTIAL

PARAPHRASE

A strictly confidential telegram of October 1, 1938, from the American Consul General at Hong Kong quotes a message from Captain McHugh, American Assistant Naval Attache, which reads substantially as follows:

Indications that the Minister of Communications (Chang Chia-so) who formerly was head of the Bank of China dominates the group of advisers around the Generalissimo are growing. Chang Chia-so was affiliated closely at one time with Japanese interests in Shanghai and is very reactionary. In recent months he has been making strenuous efforts to increase his economic and financial influence throughout the southwest and the south and in every case recently where government posts have been offered to T. V. Soong a proviso that Soong return to Chang control of the Bank of China has accompanied the offer. Captain McHugh has received confidential information from Mr. Rogers (Financial Adviser to the Chinese Government) to the effect that Chang's agents have been buying foreign (*) in the Shanghai black market against the Central Bank and that for months they have been busy also, especially in Singapore, in obtaining control of remittances from overseas Chinese. According to Rogers, recently Pei Tsu-yi faced Chang Chia-so with a direct threat to impound all funds of the Ministry of Communications held by the Bank of China unless there is an end immediately to these sub rosa operations. Lately there have been signs, according to Rogers, of a break between Kung and Chiang Kai-shek. Rogers is of the opinion that if this break should widen Kung may turn over to Chang Chia-so the Ministry of Finance. Thereafter the first move would be, according to Rogers, a resort to inconvertible currency with uncontrolled inflation. For months Rogers and his associates have

-2-

been fighting this move and have only avoided it up to the present time by being able to produce results. Their hands will be tied and they will be rendered powerless to make further resistance by the impending exhaustion of the reserves which are less than two million pounds now.

Copy

October 1, 1938.

Dear Cy:

I have received your letter of October 1, submitting your resignation as Special Assistant to the Secretary as of that date, because of your appointment as First Deputy Comptroller of the Currency.

I am happy to accept your resignation only because the appointment that makes it necessary is evidence of my faith in you and my confidence in your capacity to do even more difficult tasks than any I have heretofore called on you to do.

The new appointment is not a reward for your loyalty. For that, of which I am always conscious, I can only express my thanks and affectionate appreciation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Cyril B. Upham,
Acting Comptroller of the Currency,
Treasury Department.

Initialed "HEG"

Copy

TREASURY DEPARTMENT
Washington

October 1, 1938

My dear Mr. Secretary:

In submitting my resignation as Special Assistant to the Secretary of the Treasury to accept the position of First Deputy Comptroller of the Currency, to which you have appointed me, I want to express my gratification for having been privileged to work directly for you in the former capacity since 1934.

You know my high opinion of you and of the caliber of your public service. I count it a rare privilege to have been associated, upon my entrance into Government service, with a man of your ability and character. I am happy that my change of work does not involve leaving the Treasury.

I adopt for my own the words inscribed to you by Roswell Magill: "There is no one with whom I would rather keep step."

With loyalty and affection,

/s/ Cy Upham

Cyril B. Upham

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

C
O
P
YC. E. McGuire
Cosmos Club
Washington, D.C.

October 1, 1938.

Dear Mr. Bell:

I waited a few days before writing to you about the proposal which I made at luncheon ten days ago, and which I first formulated five months ago, when the National Socialist persecution in what was formerly Austria became a real terror. I wanted to be sure that we would not have a major war raging in Europe in the next few weeks. By the morning of September 27, when I read the speech of the German Chancellor of the night before, I was convinced that no war was just ahead. The Beer Hall Swashbuckler was uppermost in that speech, and while there had seemed to be some risk of a collision for the preceding ten days, it was evident to me from that speech that the German Chancellor was once more going to content himself with merely inciting assassination and rapine, rather than taking the honorable chances of war. On Wednesday, I notified those who consult me to that effect.

The renewal of racial and religious persecution may now be expected in Germany. It may be dropped quickly in Italy - whose ruler was using anti-Semitism merely to get a foothold in the Mohammedan-Hebrew struggle in Palestine, and thus challenge adroitly the British Empire's virtual claim to be the Protectress of Islam. The Munich Autopsy afforded Mussolini a chance to make headway in forcing England to come to terms with him. But generally, we may as well expect a sharp acceleration of the robbery and maltreatment of those of Jewish blood, whether or not professing the Hebrew

- 2 -

Faith. The internal economic and financial disorder of Germany is such that the Gangsterdom of the Fuehrerhaus will feel the need of more and more confiscation to pay all the "boys".

My proposal is that the Government of the United States offer a substantial reduction to the Governments of France and Great Britain in the aggregate amounts of their respective indebtedness to our Government, in consideration of their relinquishment of sovereignty over their colonies of French and British Guiana, and that a further reduction be granted to them, as well as a reduction on the debts of Belgium, Italy, Poland, Greece, and other States to this country, in consideration of a cash payment to be made by all of them to the Government of the Netherlands, for the relinquishment of Dutch sovereignty over Dutch Guiana (known officially as Surinam).

I suggest that the three colonies then be constituted into a single State, the territorial integrity and inviolability of which should be solemnly guaranteed by the principal Republics of this hemisphere, either at the Eighth International Conference of American States, which will meet at Lima on December 9, and for a month or two thereafter, or subsequently in a special meeting.

For ten years, I suggest that the New State be governed by an international commission comprising delegates of the cessionary powers, and of Brazil, Venezuela, Argentina, Chile, Peru, Colombia, and of the United States.

This New State would be thrown open to refugees of Jewish blood from all countries, as well as others of Jewish ancestry, whether or not of the Hebrew Faith, from Palestine or elsewhere.

- 3 -

The three colonies comprise an area greater than that of Great Britain and France, with other countries thrown in, all together. There is a coastline of a thousand miles. The seaboard is low, of course, and there is a coastal strip of from fifty to a hundred miles in width. But most of the territory is much higher, and there are broad areas where Europeans accustomed only to the temperate zones, could live fairly well. There are many natural resources, abundant water. There is some gold, much fine timber, good conditions for cultivating rubber; the bauxite deposits of British Guiana are the chief source of our aluminum. The present population is exceedingly thin, particularly in the French and British colonies. It is negroid on the coast, and sparsely Indian and mixed on the interior highlands.

It is not to be supposed that the Guianas constitute a genuine Paradise. There would be much elementary work to do, clearing out malaria and its foci, setting up reservoirs, hospitals, good roads, hydroelectric installations, and the like. But the Jewish communities of the world would no doubt facilitate the fulfillment of this task. That it can be done will be believed by anyone who has seen what the Dutch have done in Surinam, Curacao, and elsewhere in Tropical countries. The Dutch colony lies between the other two, and for this reason would be indispensable. But its inclusion would be desirable, in any case, for it is the most advanced area of the three. No small part of the physical equipment of the new State could be furnished in goods from Belgium, Italy, Poland, Czechoslovakia, Finland, Greece, and other debtor States not themselves possessing lands in that part of the world to be capable of cession, again, in consideration of pro rata cancellation of their indebtedness to the United States.

- 4 -

Conceivably, the Government of the German Reich could be invited to grant reasonable rights of exportation of goods for, and on behalf of, migrating political refugees, in consideration of the cancellation of the German indebtedness on account of occupation costs, and in consideration of the Austrian indebtedness to this country. Even the National Socialist regime could not successfully reject such a proposal, which would effectively silence its leaders' slurs that the Democratic countries talk about the horrors of Germany's expelling the Jews, but do nothing themselves about it. Germany would have to concede the right of the refugees to take with them at least half their capital, and all of it, if it be less than, say, four thousand dollars, free of taxation or plunder.

I feel certain that all Latin America would welcome the establishment of such a State. I believe that Great Britain would be glad to promote any solution of the Palestinian struggle. France would welcome the relief to her harrassed credit, and the Netherlands, having a large Jewish community, would not be averse to a transaction of this sort.

I need say nothing as to the utter impossibility of our collecting anything from the debtor countries. Since I gave Secretary McAdoo, a few weeks after the United States entered the War, a memorandum setting forth why I felt that the instrument whereby the War would be brought to a close should contain a comprehensive financial adjustment if world trade were not to be destroyed for a generation thereafter, I have never ceased to regard the War Debts as in no sense an asset. My paper on the War Debts, read at New York, February 3, 1921, was the first formal publication of the Council on Foreign Relations, and the precursor of Foreign Affairs.

- 5 -

In 1931-32, I discussed, informally of course, at London, Paris, and Rome, the desirability of a reduction in armament expenditure, 5 per cent per annum for ten years, by all debtor countries, with a corresponding reduction in the Debts; and Senator Borah promised to induce Mr. Hoover to take such an initiative, but failed to do so. I mention these antecedents to remind you that I have always held the view that quite our best policy would be to throw overboard the whole decaying mass of war debts, and free our own and the world's structure of obligations from the risk of further contamination.

If the President would take the initiative in proposing this to the world, I sincerely feel that the whole nation would back him up. The people of this country have never been told the truth about the War Debts, namely, that they cannot be paid unless this country will take enough foreign goods to enable the debtors to secure the dollars to pay the debts, and that foreign balances here cannot be confiscated by foreign governments to pay government debts, without at once diminishing the purchasing power of foreign buyers of our commodities. The people of this country are basically decent, and they will accept an intelligent argument from the President. They are idealistic, too, - even now, after all that has happened; and taking the chance to solve the European religious persecution by a great and statesmanlike decision would be approved by them.

The reestablishment of confidence in the validity of international financial engagements would not be the least of the consequences of the elimination of the war debts, whose suspension or repudiation constitutes a heavy blight upon all types of public obligations.

- 6 -

Benjamin Franklin was one of the foremost artificers of our independence, - his practical statesmanship and adroit diplomacy standing beside that majestic sweep of Jeffersonian political theory, and the unflinching dauntlessness of Washington. "Franklin", as a substantive, is derived from the Anglo Saxon term for a free citizen, a burgess having property and engaged in honest production. The name Franklin could readily be used as the basis for the name of the New State, for it could be Latinized very easily into "Franklinia", symbolizing thus the great Quaker statesman who courageously labored for the freedom of the Western World, and the President who had the courage to call into being a true Free State, of free citizens, at the same time usefully and expeditiously getting rid of an incubus of frozen claims.

I have only a sincere desire to see this idea taken up and promoted by those in a position to deal with it. I am not able to undertake its intensive promotion. I am trying to complete some scientific work, and at the same time carry on my consultative work; and there is hardly time for more. I have given a large part of my time for three years to helping refugees, and have been eager to see something set going which would bid fair to deal with the whole problem comprehensively. I seek no glory, and do not expect to be known as the source of this suggestion.

Yours sincerely,

(Signed) Constantine McGuire

Honorable Daniel Bell,

Washington.

CONFIDENTIAL

15A

G-2/2657-II-90

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

G-2
J M

W. G.
October 1, 1938. *MA*

MEMORANDUM NO. 26 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., October 1, 1938.

General Situation. Except for the peremptory demands of Poland for the cession of Teschen and the more restrained irredentist clamors of Hungary, the past twenty-four hours have witnessed delirious popular celebrations over the avoidance of war. The spontaneity and depth of feeling of these celebrations express vividly the terrific strain under which Europe has lived for a month. People everywhere speak of peace having come, and, in fact, Europe has emerged from a bloodless war. This time, by potential force of arms, Germany has been victorious. There should be no illusion about that fact.

Czechoslovakia, as a demographic abnormality, is about to disappear. She alone has paid the cost of defeat in territory and alien populations, but Czechoslovakia is not the only defeated nation. Britain and France have paid in prestige and, at the moment, seem to consider it a small price for having avoided the penalties of their own military incompetence.

The Czech Government, and the Army, have accepted the terms forced upon them with tragic dignity. The press has just announced that the Polish terms also have been accepted.

What the future holds in the way of possibilities of a general settlement of European questions, no one can say. If Germany's long-range peace terms to be exacted from Europe after her bloodless but victorious war are wise and restrained, a long period of peaceful reconstruction in Europe may be expected. If Germany continues to nurse her delusions of persecution, and her exaggerated sense of destiny, then peace in Europe remains a tenuous thing. If the gross inequality in the status of armament of major powers in Europe is permitted to continue, particularly that between Great Britain and Germany, there can be only a craven peace.

CONFIDENTIAL

CONFIDENTIAL

Military Situation. The following information is, in substance, taken from Military Attache or State Department cables or the press as indicated:

Great Britain -

From M.A., London. Received
12:49 P.M., Sept. 30.

No new measures. Defensive measures already undertaken continue unremitted.

General feeling of almost hysterical relief in military circles combined with expressed determination not to be found unprepared again.

It is intimated in official quarters that large contracts will be placed with United States aircraft manufacturers as a result of crisis.

From the Press - Unconfirmed.

It is reliably reported that four Guards and two line infantry battalions, totaling about 5,000 men, will be sent to Czechoslovakia to perform police duties during the plebiscites.

France -

From Press - Unconfirmed.

Progressive demobilization of reservists called to active duty is to be started at once.

Germany -

From the Press - Unconfirmed.

The first German troops crossed the Czech border from Austria at one o'clock to-day (7:00 P.M., Sept. 30, E.S.T.). Large concentrations were made for the further occupation. The International Commission began sessions in Berlin on the evacuation and allocation of territory.

Territory No. 1, which is to be occupied first, is a stretch roughly 70 kilometers long and 15 kilometers deep at its widest point. It is north of Linz adjacent to the Austrian frontier and contains neither Czech troops nor Czech fortifications.

Italy - No change.

Czechoslovakia -

From the Press - Unconfirmed.
News flash at 8:35 A.M., Oct. 1

Czechoslovakia has accepted the Polish ultimatum.

156

CONFIDENTIAL

matum regarding the Teschen area. Czech troops will make a token evacuation this afternoon.

General Krejci, Czech Chief of Staff exhorted the army by radio to obey orders.

Poland -

From Warsaw thru State Dept.,
sent 9:00 P.M., Sept. 30.

Poland has forwarded to Prague a note demanding favorable reply by noon Saturday to following: (1) occupy Teschen by Sunday; (2) occupy other districts within 10 days; (3) plebiscite in other Polish population areas.

From M.A., Poland. Sent 1:09 A.M.,
October 1, 1938.

Unless Poland receives a favorable reply to her ultimatum by noon October 1st, she threatens to occupy Teschen on October 2. Russians are discounted by Poles.

Hungary -

From Budapest thru State Dept.
Sent 10:00 P.M., Sept. 30.

Hungary is prepared to make a two-point demand for cessions from Czechoslovakia.

From the Press - Unconfirmed.

General Fischer, Chief of General Staff, resigned and is succeeded by General Worth. It seems to have been due to differences in military policy.

CONFIDENTIAL

Saturday
October 1, 1938
10:54 a.m.

HMJr: Hello, Jesse.

Jesse Jones: Hello, Henry.

HMJr: How are you?

J: All right.

HMJr: Good.

J: Henry, I wanted to talk with you - ah - before you settle a definite plan about the approach to this California situation.

HMJr: Yeah.

J: And, if I may, I'll come whenever I may.

HMJr: Why I thought it was all settled yesterday

J: Well, I know, but - this fellow's - we've got to sort of hold this fellow's hand a little bit and I want to talk with you before I talk to him. - Fleishhacker.

HMJr: Oh.

J: And then there are some things about it that I want to explain to you.

HMJr: Uh huh.

J: That I have not ^I -/haven't had an opportunity.

HMJr: I see. Ah - where are you now?

J: I'm at my office. He's fixing to go this afternoon to - to California.

HMJr: Yeah. He dropped in here when we were all meeting and -

J: Yeah.

HMJr: And came in and said he was going.

- 2 -

J: So that ah - I thought I'd like to go over it with you.

HMJr: O. K.

J: - before we - so I could - I'm supposed to see the President at ah - for five minutes at eleven twenty-five. I could come by there then if that would suit.

HMJr: You mean come now?

J: I guess - I'd need a little more time than that, Henry, I think.

HMJr: Well, perfectly frankly, I'm waiting - I'm expecting a message from the White House and the minute I get it I want to leave town.

J: Oh, you're going to leave town?

HMJr: The minute I get it.

J: Well then I'll come over there now, suppose I do that?

HMJr: O. K.

J: Goodbye.

Saturday
October 1, 1938
11:21 a.m.

James
Farley: I'm a little bit peeved with you.

HMJr: What?

F: I'm a little bit peeved with you.

HMJr: Why?

F: I thought you'd at least wire me of what happened in Rochester.

HMJr: Do you mean congratulating you?

F: I'm only kidding, but what did you think of it?

HMJr: Well, I owe you a package of gum, don't I?
No, you owe me!

F: What did I bet?

HMJr: Why you bet me a package that you'd get Wagner to run for governor.

F: Did I? Well I'll lose that package.

HMJr: Yeah.

F: With a great deal of pleasure.

HMJr: Well, I congratulate you.

F: Maybe - maybe you won't make me pay that because Wagner's name was never mentioned.

HMJr: (Laughs) I won't make you pay it. But I congratulate you; you did a swell job!

F: Well, ah -

HMJr: And I don't know how much help you got from down here -

F: None at all.

HMJr: Well, that -

F: As a matter of fact, to you, in the most utmost confidence, that was the one thing that would kill it.

- 2 -

HMJr: I see.

F: That's only for you, brother.

HMJr: I get you. Hello.

F: Yes.

HMJr: I - I get you. I don't - I didn't know;
I -

F: In other words, between you and me we were afraid that even a telephone call would come in. I - I couldn't - there isn't anybody else in Washington I'd tell that story to but you, because you and I understand that situation.

HMJr: Yes, we do. - I think you did a swell job. I was terribly worried.

F: Well, you'll never know, Henry. When I see you I'll talk to you about it.

HMJr: Yes.

F: She - I really feel terribly sorry for Mrs. Lehman.

HMJr: You do?

F: Now I say that honestly.

HMJr: Yeah.

F: Now no - she certainly lived a terrible life there for those few days because I know how she felt.

HMJr: Yeah.

F: And it's hard to argue when the personal element is involved to the extent that it was there.

HMJr: That's right.

F: But he was all right and he's just as overjoyed and happy as he could be and he's all set; he's made a good speech of acceptance - only about eight minutes but he certainly layed that other

- 3 -

fellow low. As Charlie McCarthy would say, he mowed them down.

HMJr: That's right. He's got -

F: He made a hell of a speech and he's just as enthusiastic as he ever was in his life.

HMJr: Yeah.

F: So that means that we'll have a good campaign and our troubles are over here and it will have a wholesome effect on the party in the nation.

HMJr: That's right.

F: Because it might look as if this fellow here - this Gallahad was just going to walk away with things.

HMJr: That's right.

F: Well, all right, young man, I'll be seeing you soon.

HMJr: Well, I congratulate you.

F: By the way, I see that you're having some moves around your establishment.

HMJr: (Laughingly) Yeah. Well, I think we are and - ah - this is just for you, see?

F: Yeah.

HMJr: I went to see the President Wednesday night.

F: Yes.

HMJr: And told him - hello?

F: Yes.

HMJr: - what I wanted to do in regard to Diggs and in regard to Oppegard.

F: Yes.

HMJr: And I told him why I wanted to do it - on account of that serious situation out there and that Delano had asked me to do it.

- 4 -

F: Yes.

HMJr: So I said, "Now, this is what I want to do on Saturday." So, the President said - he questioned me and he said, "All right, go ahead." So Thursday I got Leo Crowley to have a board meeting of himself and one of his other fellows and they decided they can take Diggs and Oppegard until the first of January.

F: Yes.

HMJr: So that the two fellows would have a chance to turn around.

F: Yes.

HMJr: I wanted to be fair.

F: That's right.

HMJr: Last night I get a call from Steve Early - what was all this about Diggs - the President never heard about it. So I said, "Well, wait a minute, I'll come over." Well, by the time I'd try to get over there they called me not to. I got over there and they said, "Oh, yes, the President remembered."

F: Yes.

HMJr: So ah - but that situation, as I told you before, is even worse than I thought it was.

F: Really?

HMJr: Oh, yes. Yeah.

F: Well, I'm glad you got on top of it before it was too late.

HMJr: And - ah - God, we don't want any really major scandal in this Administration! And ah -

F: Well, I'd hate to see it happen around anything that you'd have anything to do - realizing your sincerity.

HMJr: Yeah. And you can't make a move in the Comptroller's office without it leaking out.

- 5 -

F: I see.

HMJr: And it's just like a sieve. And it -

F: Well, when a situation like that presents itself a major operation is always necessary.

HMJr: Well that's what I said. And I - I went over every item Wednesday night with the President and he approved everything. So I'm just sitting here. I was going to go home last night and here I am sitting - he's going - he was going to see Diggs at eleven, see?

F: Yes.

HMJr: And I'm sitting here waiting.

F: I see.

HMJr: So - ah -

F: Well, good luck to you. By the way, I think what's happened abroad will temporarily at least - bridge the situation.

HMJr: Yeah.

F: When we're down to the - to speak politically for the moment -

HMJr: All right.

F: It will go down to our President's position and popularity in the country and it won't be detrimental to the Democratic cause.

HMJr: You're getting to be quite a speaker.

F: Beg pardon?

HMJr: That's quite a speech.

F: Well, I sit along side of Ickes at the Cabinet meetings and I get those thoughts from him.

HMJr: (Laughs) Well, Jim, the first time you're coming down give me twenty-four hours notice and we'll have a little banquet.

- 6 -

F: I'll try and do that, because I do want to tell you some - there were really some - I'll give you one line that's priceless.

HMJr: Yeah.

F: Of course there were all kinds of arguments -

HMJr: Yeah.

F: - offered to Lehman as to why he should take it - and many of them sincere and many of them probably were boys who were putting on an act.

HMJr: Yeah.

F: But the prize one to me was Ed O'Connell telling Lehman -

HMJr: Yes.

F: - that he couldn't prevent his delegation from going to Lehman no matter what effort he put forth.

HMJr: Yes.

F: All said in a serious way. And I went out - and when he left the room that night and went outside I said, "Ed, I'm amazed at the statement you made in there." And I tried to be serious, see?

HMJr: Yes.

F: And he said, "What statement did I make?" - "Why, the statement that you couldn't control your delegation. Are you getting soft and are you slipping to the point..."

HMJr: Yeah.

F: "...that you don't put anybody - that you put anybody on the delegation that would run off with you?"

HMJr: Yeah.

F: And he looked at me and with a twinkle in his eye. "Jim," he said, "That condition could happen with Lehman despite the fact that we don't put anybody on that delegation far - been removed far beyond Couzens."

- 7 -

HMJr: Is that right?
F: (Laughs)
HMJr: That's very amusing.
F: It was very funny.
HMJr: Well, I'm anxious to see you.
F: I'll tell you all about it.
HMJr: Congratulations.
F: Thank you. Goodbye.

Saturday
October 1, 1938
11:28 a.m.

HMJr: Hello.

Operator: Mr. Alsop. Go ahead, please.

HMJr: Hello.

Joseph
Alsop: Hello, Mr. Secretary. I hate to bother you, sir, but there are two or three things in this spending business that - that I have to - I'd like very much to clear up before I get my article - ah - finished.

HMJr: I'll do the best I can.

A: Uh huh. And the first of them in this, sir. Ah - I hate to bother you about it except that it's in the middle of the European crisis I can hardly bother him. And that is the - the - ah - as I understand it, Secretary Hull - ah - had something to do - Mr. - ah - Berle said that he and Secretary Hull had something to do with spending message and the fireside chat as they were finally written. Now I have heard from various people that he was - (coughs) ah - so to speak, working with you in a mild way through the earlier period. And I wondered if it were safe to say that.

HMJr: Who, Mr. Hull?

A: Yes.

HMJr: No. I had no direct contact with him on that.

A: Ah - as I understood it he was advising the President against either a very radical resort to spending or a - or a - any other very violent move during that depression period.

HMJr: Now, wait a minute. I - I've got to be very careful.

A: Yeah.

HMJr: Ah - I said I had no contact with -

A: I understand that you might not have had any contact with him but I wondered -

- 2 -

HMJr: No - no -

A: - whether I'd be right in saying that he was advising the President along that line.

HMJr: Now wait a minute. I want to ^{be} very careful. I want to withdraw that remark, see?

A: Yeah.

HMJr: But, what I want to say - what he was advising the President I don't know and I'll tell you why.

A: Uh huh.

HMJr: The week before that his message went up I was down at Sea Island, see?

A: Yes.

HMJr: And I only returned on that Monday night. Now I know I've heard that the State Department had messages and all that, you see?

A: Yes.

HMJr: But, what they said or what they did or what was written was, as far as I'm concerned, all hearsay.

A: Yes.

HMJr: Do I make myself clear?

A: I see. Well, ah - that hearsay -

HMJr: I - I don't - I understand that they were working on things for the President but I never got it direct.

A: Yes. That hearsay would, however, confirm my impression, wouldn't it, sir?

HMJr: It - it would confirm it as far as what Mr. Hull may or may not have done.

A: Yes.

HMJr: But I can't tell you what he did or didn't do.

- 3 -

A: I see. I understand perfectly.

HMJr: Does that - does that make it clear?

A: Yeah. I understand perfectly, sir, that you have no direct knowledge of it but that your understanding by hearsay is about the same as mine.

HMJr: Ah - that he was interested.

A: Yes.

HMJr: But just how far or what form it took, I don't know.

A: Well, I understood - I understood particularly that he was responsible for the remark which I think was in the Fireside Chat - that ah - that everyone has made mistakes - to be rather conciliatory - and -

HMJr: Well I - I can't help you out on that, sir. I don't know. I never saw - if there was a Hull memorandum I never saw it.

A: Uh huh. Well, that was - that was, however, the least of my troubles. (Laughs)

HMJr: Uh huh.

A: Ah - then -

HMJr: I was being scrupulously careful.

A: Ah - Well, that's just what I wish everyone that we ask questions would be. (Spoken laughingly) (Laughs)

HMJr: (Laughs) I haven't got my - ah - diary -

A: And it's a great deal more than most of them are.

HMJr: I guess Bob Kintner told you I re - I used my diary when he was here.

A: Ah - then, another thing, sir. I found it in Bob's - ah - in the memorandum that Bob made for me of his talk with you.

- 4 -

HMJr: Yes.

A: Ah - a mention of conferences in February and March when the question of pump priming -

HMJr: Yes.

A: - first began to be raised in a serious way.

HMJr: Yes.

A: Now, I wondered just what those conferences were and where and who participated in them.

HMJr: Oh, gosh, I gave that to Kintner in the greatest detail, and told him all about - I haven't got it here. I mean I gave him the dates and the place and every - and the names and everything.

A: Well, the only conferences that you gave him, sir, I think, were talks that you had with Aubrey Williams about additional money for relief.

HMJr: Yeah.

A: And I rather gathered from his language; perhaps I'm wrong, that there were at the same time, oh - White House conferences which were mentioned in a general way, in which you - you pressed the point that direct pump priming through public works was not the best way to do the thing because it was likely to throw the recovery, if there was one, out of kilter. And I wondered just when those started and -

HMJr: Well I couldn't do it over the phone. It took me an hour and a half to dig that up for Bob Kintner and he took - he asked me could he take notes and he did.

A: I don't think he - I don't think he got those particular conferences because he is a rather careful memorandum writer and he - he merely - he merely got your stand at that time.

HMJr: Well, I'm sorry - I couldn't go into that over the phone because I haven't got the material and frankly I couldn't do it this morning.

- 5 -

A: Uh huh.

HMJr: But I - I spent an hour and a half with Bob and gave him everything I had.

A: Uh huh. But - but - just as you remember it, sir, were there - were there White House conferences at that time?

HMJr: Listen, I gave him everything that I had.

A: Well, (Laughs) I'm sure he wouldn't have left out anything, sir, and I wondered if you just remembered.

HMJr: No, I - I can't remember this morning.

A: Uh huh.

HMJr: My memory is very weak this morning.

A: (Laughs) Well, ah - it's awfully important to me, sir. I - I mean, you must surely remember whether there were -

HMJr: No, I can't this morning.

A: (Laughs)

HMJr: I'm very sorry.

A: (Laughs) And there was one other thing, sir, that - ah - there were two other things that interested me. One was - ah - we had a story given us by someone else - ah - one of the people who was there incidentally. That on the 31st of March - ah - Wayne Taylor, whom we've tried to get hold of and who hasn't been here, and Berle and Ronald Ransom met as the representatives of yourself and ah - and ah - Mr. Eccles; and I suppose Berle was just there as a sort of a - an addendum - ah - and then decided - that was of course after the R.F.C. lending bill had gone to the Hill - ah - then decided that pump priming was inevitable and that it was no longer to be opposed. And - ah - it sounded pretty fishy to me, frankly.

HMJr: Well, Wayne Taylor is back in his office right now.

- 6 -

A: He is?

HMJr: Yes, he is.

A: Oh. Well, I'll give him a ring about it.

HMJr: And -

A: But - but that would repre - that would have represented, you see, a very marked change in your attitude before the President's return from Warm Springs.

HMJr: Yes.

A: And I wanted to check it particularly with you because it would have meant that when the President returned from Warm Springs you had changed your view on pump priming.

HMJr: No. No, I - No - I - I - my - as to how I thought -

A: Your feeling was quite consistent from first - first to last.

HMJr: From first to last. And I gave what's his name all the references and everything else, and my public utterances on that.

A: Yes. And - and then, another thing, so that -

HMJr: There is a memorandum on that meeting which you mentioned.

A: What's that, sir?

HMJr: Wayne Taylor has a memorandum on that meeting.

A: On that meeting of Berle and Ronald Ransom.

HMJr: and himself.

A: Yeah.

HMJr: He wrote a memorandum on that.

A: All right. Well, I'll call up Wayne about it then. And then, one other thing, sir. Ah - as I understand it, when the President got back from Warm

- 7 -

Springs then - ah - he was pretty well determined to spend and - ah - ah - I've been told that he - ah - asked you to - and this is the part of the story I don't think you got to with Bob - that he asked you - ah to straighten the sort of general program - the details of the program - out with Mr. Wallace and Mr. Hopkins. And as I understand it there were talks between the three of you at that time. Mr. Wallace and his subordinates had prepared a rather dashing kind of spending program with several new kinds of projects. And Mr. Hopkins, of course, wanted - preferred, as I understand it, P.W.A. and W.P.A. spending to any new departures. And you were in the middle straightening the thing out. And I've been told that those talks went on for five or six days there.

HMJr: Well, I - I'm being honest now, as I try usually to be -

A: (Laughs) I know you do.

HMJr: Ah - without looking up my diary I - I just couldn't tell you. I - I don't - it isn't clear. I mean, these things that - there's so much happens in a day I - I just can't remember. I don't remember.

A: You don't -

HMJr: I - I remember that Wallace had a program.

A: You remember that Wallace had a program?

HMJr: Oh, yeah. He showed it to me. I remember that.

A: And that program did not go through, of course?

HMJr: No.

A: And - ah -

HMJr: I know Wallace had a program.

A: The - the - the question in mind was whether ah - I was told that you were commissioned by the President on his return from Warm Springs -

HMJr: Well, I can't remember that. I mean I honestly don't remember.

- 8 -

A: (Laughs)

HMJr: Now look, the White House is calling me -

A: All right, sir. Well, I won't bother you any -

HMJr: I'm sorry. But it's pretty hard to do that on the phone.

A: I won't bother you any further. I thought you might remember some of those things off hand.

HMJr: No, I don't.

A:

HMJr: Thank you.

A: I'm -

HMJr: Goodbye.

A: I'm sorry to bother you. Goodbye.

NO

GRAY

LONDON

Dated October 1, 1938

Rec'd 9:30 a.m.

Secretary of State

Washington

1112, October 1, 1 p.m.

FOR TREASURY FROM BUTTERCORN.

One. The dollar opened at 4.82 $\frac{1}{4}$ bid and went to 4.81 $\frac{5}{4}$ at which point arbitrageurs came in to buy dollars before gold fixing and the rate moved to 4.82 $\frac{3}{8}$. It is now closing steady at 4.82 $\frac{1}{8}$. As compared with previous days of this week the volume of trading was small, only 120 bars were sold at gold fixing at 144 shillings, 1 $\frac{1}{2}$ penny. Apparently some arbitrageurs are shipping without bothering to cover the risk for the price is at the old parity shipping rate 34.77 excluding the risk insurance charges.

The franc is being fairly heavily sold and the three months rate has moved out to a new high level of 7 $\frac{5}{8}$. Reports from Paris reach the City that the French fund has only some five milliards of gold and that Daladier may have to face another Parliamentary crisis arising out of both his foreign and his financial policies.

Two.

NC -2- #1112 from London, October 1, 1938 1 p.m.

Two. The most reliable estimate available places the cost to the British Government and the local authorities for air raid precautions taken for the civil population during the past two weeks at about pounds sixteen million. No reliable figures are available for the navy, army or air force but the current estimate of an additional pounds ten million to pounds fourteen million is thought by the Embassy's Army and Navy attaches as not far from the mark. Not all of this expenditure will, of course, be a dead loss and no doubt most of it can be absorbed in the current ~~appropriation~~ appropriation. In the course of a casual conversation, the acting French financial attache expressed the opinion that the corresponding French expenditures would be somewhat less although the extent of the preparations might have been greater but he added that so much depended on the bookkeeping method of computation.

ENEDY

PEG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 1, 1938, noon

NO.: 1688

FROM COCHRAN.

This morning there is a report in AGENCE ECONOMIQUE that it is believed that when the French Parliament convenes next Tuesday in special session to pass upon the policies which the Government followed in the international crisis, there will be put before it financial proposals which are necessitated by the repercussions of recent events upon the finances of the country. The report states that the Finance Minister will present the proposals to the Cabinet at half-past nine on Tuesday morning, and they will be deposited with the Chamber after the Council of Ministers has approved them.

In the same issue of AGENCE ECONOMIQUE it is stated that during the second half of September ordinary savings banks withdrew from the Caisse des Depots et Consignations one billion francs, and deposited with it fifty-eight million francs.

END SECTION ONE.

BULLITT.

EA:LWW

SECTION TWO.

This morning I talked by telephone with Rueff of the Finance Ministry. I asked him about the first of the items mentioned above. He replied that as yet Marchandean, Minister of Finance, had not told him what plans had been decided upon; Rueff promised that as soon as he could, he would inform me about them.

I also had a talk with my friend in the Bank of France at twelve noon. My friend said that neither he nor the Governor know of any financial decision having been taken. If it had been necessary to have general French mobilization, he said that they would have promptly launched a big public loan.

END SECTION TWO.

BULLITT

RECEIVED

DEC 1 1941

INVESTIGATIVE DIVISION
FEDERAL BUREAU OF INVESTIGATION
U.S. DEPARTMENT OF JUSTICE

EA:LWW

REB

GRAY

Bern

Dated October 1, 1938

Rec'd 12:51 p. m.

Secretary of State,
Washington.

75, October 1, 11 a. m.

Department's 52, September 28, 2 p. m.

Consulted National Bank authorities at first opportunity. Learn that Swiss stock exchanges would be closed immediately in event of general war; that Switzerland would avoid taking initiative in imposing general exchange restrictions in view of importance of resources abroad and desire of authorities here to maintain liberal monetary policy and avoid risk of provoking or encouraging restrictions by other countries, especially United States. It was said that National Bank could lose three hundred to five hundred million francs foreign exchange before being faced with necessity of restrictions.

No consideration given to any plans of liquidation Swiss holdings of American securities for the reason that any necessity therefor might arise only after year at least of war. Their amount is estimated to
exceed

REB

2-#75, From Bern, Oct. 1, 11a.m.

exceed five billion Swiss francs exclusive of non-Swiss capital in holdings Swiss banks and investment trusts.

Swiss National Bank resources in the United States approximately one billion Swiss francs including seven hundred million francs in gold and three hundred million in dollar exchange. Banks policy is to maintain its holdings in the United States at about this level. These funds considered sufficient in the event of war. Authorities also believe there would be little difficulty in floating Swiss loan in the United States after outbreak of hostilities if such course were desirable in view of Swiss Government's high credit standing.

HARRISON

RR

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: October 1, 1 p.m.

NO.: 15

FOR THE TREASURY FROM HEATH.

Information is as yet lacking to measure the heavy strain put on the government finances, monetary and foreign exchange reserves by the military preparations of the last weeks and days. There was undoubtedly credit and monetary inflation as indicated by the Reichsbank statement for September 23 which showed an increase in total currency circulation to 8,786 million reichsmarks, as compared with 8,117 million reichsmarks on August 23 and 6,564 million reichsmarks 1937. The Reichsbank bill and check portfolio stood at 6,547 million reichsmarks, as compared with 5,790 million reichsmarks August 23 and 4,762 million reichsmarks a year ago. For the first three weeks of September only 13% of chargeable Reichsbank credits were repaid, as compared with 66% for the first three weeks of August and 91% for the first three weeks of September 1937.

In August the excess of imports over exports was 64 million reichsmarks, whereas in July the deficit was less than three million reichsmarks.

-2-

It is not denied at the Reichsbank that a decrease in foreign exchange reserves occurred, but it is insisted that their position is not a dangerous one.

The question of the extension of German monetary and banking system to the Sudeten territory which will be taken over is being actively studied by the Reichsbank. As yet no decision has been reached as to the rate at which reichsmarks will be exchanged for Czech currency to the population. However, it was indicated to me that an arbitrarily high rate will be fixed to bring the low prices at present prevailing in the area in line with the artificial German price level, and "for social reasons". Whether to try to arrange for Czech banks to maintain their branches in the Sudeten territory or have them taken over by German banks is a question which is being debated. It is thought that branches of the purely Czech banks might be taken over, whereas certain so-called "international" Praha banks would be encouraged to maintain their branches. It is to be noted that an Alsatian bank still maintains a branch in the Saar. To/continue for
arrange for
of banking and credit in the
Sudeten area will be much more difficult than it was for Austria after the anschluss. This is because the central offices of the banks now serving the Sudeten area will have their location in a foreign country.

The taking over of the area will also cause a new

- 3 -

"Standstill" problem since the textile and other industries have foreign credit lines. The Reichsbank is of the opinion that these are mainly European but stated there may be some American credits for cotton.

It is admitted that taking over this area means an intensification for some time to come of the Reichs fiscal, monetary and foreign exchange problems. The export industries in the district failing large subsidies will have to raise their prices once they are geared into the Reichs price system. A large part of the sales of Sudeten industry was to other parts of Czechoslovakia. It will be admittedly difficult for Germany to increase its imports from Czechoslovakia and if the Sudeten factories keep up their shipments to that country there will be a surplus of German blocked funds in Czechoslovakia.

While the new area has only half the population of Austria, the Reich is faced with relatively greater capital and relief expenditures. It is stated that the general economic conditions are worse than that of Austria. Even during the Austrian Empire the district was not favored as regards Government expenditures nor has it been under Czech rule. A large part of the industrial equipment is out of date and the character of production must be changed to meet the requirements of the German market.

WILSON.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close OCT. 1, 1938GOLD HELD IN LONDON
\$61,595,000

pments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Oct. 3	Somers	\$25,000,000
Oct. 7	American Farmer	10,000,000
		\$35,000,000

EDA

GRAY

BERLIN

Dated October 3, 1938

Received 10:35 a.m.

Secretary of State

Washington

525, October 3, 1 p.m.

No. 16 FOR TREASURY FROM HEATH.

Evidently timed to take advantage of the popular feeling following the settlement of the Sudeten question the German Government announced on October 1st a ~~4 1/2~~ long term loan of 15,000 million reichmarks at 98 3/4%, the largest peace time loan announced in German financial history. The April loan was eventually floated in the amount of 16,000 million reichmarks but the original offering was only 1 billion reichmarks with 600 million being subsequently issued in view of over-subscription.

Unspecified financial interests are stated already to have taken 550 million reichmarks of the loan (in April the advance subscription 250 million) leaving the consortium organized by the reichsbank to dispose of 950 million reichmarks. The new bonds are trustee securities and are collateral for Reichsbanks. They have 20 years maximum

and

EDA - 2 - #525, October 3, 1 p.m. from Berlin

and 17 years average maturity.

Payments for the new bonds are 40% on October 26 (note: On October 20 a series of short term Treasury notes falls due). and 20% each on November 5, 21 and December 5.

The success of the new loan in this authoritarian state is assumed in advance although the money market is less liquid than it was last spring. Thus during 1938 the Reich will have issued 4,865,000,000 reichmarks of long term bonds as compared with 2,350,000,000 reichmarks in 1937.

The total consolidation loans of the Third Reich will total therefore 12,000,000,000 reichmarks.

WILSON

GW:WWC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **October 3, 1938.**

TO **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.**

FROM **L. W. Knoke**

I called Bolton at 10:45. Things were much quieter today he said. They had done their best ever since Friday and tried to get a closer range of rates and to return closer to normal. The bullion market was practically back to normal but that couldn't be said yet of the Exchange market. It was very difficult to know what the right price of sterling was. Unless the pressure became very strong he was personally disinclined, and he had so advised his associates, to let the rate go down. They would have to try and work out in the next few months some sort of scheme to see at which rate sterling would rise more easily than it has been. As regards today's operations they hadn't sold any more dollars since this morning's cable telling us that they had done \$15,000,000.

Cariguel had had a very bad day and had lost probably more than £2,000,000. Paris was now trying to introduce some system of control and to sell foreign exchange only for legitimate commercial requirements. As a result there had been two franc rates this morning, the official rate in Paris and the open market rate in London. The French were truly in a mess. Marchandeu was reported to intend to ask for increased borrowing powers from the Bank of France. The Treasury's position at the moment was hopeless and a real menace to the exchange market. Note circulation had reached fantastic figures and stood today probably close to francs 125 billion. The situation was becoming more difficult for the French Government because every

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **October 3, 1938.**

TO **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

FROM **L. W. Knoke**

BANK OF ENGLAND.

2

Frenchman was convinced that France had suffered a very serious diplomatic defeat at Munich; that she had lost the Poles, the Czechs and the Russians as friends and that France was today in a place of isolation. It was just impossible to see how this sort of thing could be worked out. Meanwhile the effect was apparent in the exchange markets. The franc's weakness had inevitably imparted itself to the pound sterling. He had been trying hard to let the market, if possible, settle down but so far he had not been able to do that largely because of this renewed weakening of the French situation. Naturally, nobody in England felt very happy over this situation but there was a very great sense of relief. Was there any talk in New York about the true value of sterling? I replied that I hadn't seen this problem discussed in quite a while due probably to the fact that the excitement of the last few weeks had very much relegated this point to the background. They were prepared, Bolton continued, for disturbances for at least a week feeling that it would take that long at any rate for the exchange market to get down to some basis where it could operate normally.

I referred to his cable #490 and suggested that it would be much easier for us if he would instruct us to earmark the gold in account #3 which would make it unnecessary for us to raise all

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **October 3, 1938.**

To **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

FROM **L. W. Kneke**

BANK OF ENGLAND.

3

kinds of questions as to ownership of the gold. Under the circumstances it would be perfectly in order to put it in #3, Bolton said, and he would advise us accordingly.

LWK:KV

RECEIVED
OCT 5 1938
FEDERAL RESERVE BANK
OF NEW YORK
TELEPHONE CONVERSATION WITH
BANK OF ENGLAND

GAL

PLAIN

London

Dated October 3, 1938

Rec'd 3:56 p.m.

Secretary of State,
Washington.

RUSH

1119, October 3, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. British Treasury confirmed the receipt of a second appeal from Czechoslovakia for financial assistance (the first one being reported in my 986, September 21, 6 p.m.) and that the Bank of England has been requested to make the advance which will later be reimbursed by act of Parliament. In referring to this the Prime Minister stated in the House of Commons this afternoon:

"We must recognize that Czechoslovakia has been put in a position where she has got to reconstruct her own economy. In doing so she must encounter difficulties which it would be practically impossible for her to solve alone. We have received from the Czechoslovakian Government through their Minister in London an appeal to help them to raise a £30 million loan by a British Government guarantee (at this point

many

-2- No. 1119 dated October 3, 1938 from London

many members of Parliament cheered). I believe that the House will feel with the Government that this is an appeal which should be met with a sympathetic and even generous response. So far as we have yet been able to ascertain the Czechoslovak Government has not as yet addressed any similar request to any other Government and it is evident that the terms and conditions of a guaranteed loan and what governments should participate in it cannot be decided immediately. Evidently this is one of those cases where the old proverb applies 'He who gives quickly gives twice.' His Majesty's Government are informing the Czechoslovakian Government that we are prepared immediately to arrange for an advance of £10 million to be at that Government's disposal for their urgent needs. (At this point many supporters of the Government cheered). How this advance will be related to the final figure that may be decided upon later is for future consideration. Manifestly all this depends upon many factors which cannot now be determined."

Two. The mood of profound relief at the avoidance of a European war at this time has now been supplanted in the city today by a questioning consciousness of the problems,

economic

-3- No. 1119 dated October 3, 1938 from London

economic, financial and political, which lie ahead of Great Britain. An appraisal is beginning of the economic outlook and the financial outlook with particular reference to the effect of increased armament expenditure; the possibility of a general election which always induces an element of uncertainty, as well as the long range European political situation. Consequently British security markets have been hesitant with a tendency to weakness and the dollar has again been bid. The dollar opened at 4.81 3/4, the pressure became very heavy just before fixing with the British authorities giving dollars freely at 3/8. The rate has gradually moved to 79 1/4 despite determined but sporadic support by the British authorities and in the late afternoon the pressure was again extraordinarily heavy. Gold fixing of 340 bars at 144s, 8 1/2d, was again at parity without war risk cover. The war risk rate on gold bullion to the United States remains at 1s. 3d, per £100 and apparently a meeting at Lloyds this afternoon took no new decision in this respect.

KENNEDY

WTC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 3, 1938, 6 p.m.

NO.: 1679

FROM COCHRAN.

A tremendous increase in note circulation during recent days is revealed in the newly published statements of various European central banks. The French Government still faces all of the economic and financial problems which it had before the acute war scare, in addition to the heavy expense it underwent incident thereto. Tomorrow there will be a special session of Parliament to study measures to meet the Treasury strain. It is therefore feared that there will be further borrowing at the Bank of France by the Treasury, and there are as well fears of franc depreciation or control of exchange. Should Parliament (omission - not?) approve/ ^{further borrowing} the monetary problem will become even more acute, and it will shortly be urgent to have a decision in favor of the next step. There has been little return of deposits according to banks which I visited today. The big rediscount portfolio of the Bank of France cannot be importantly reduced unless return of deposits does take place. Because financial and perhaps monetary decisions by Parliament are imminent, it is more likely that the recently created francs will be converted into foreign exchange than returned to the Bank of France.

Today

- 2 -

Today the Paris exchange market witnessed a weakening of the franc; the French stabilization fund gave sterling to hold spot rate at 178.98. The control gave three months sterling to bring that rate down from 8 3/4 to 7 3/8. London was quoting spot franc at 179 1/16 in the meantime.

At six o'clock I had a talk with the Bank of France. The British control by that hour had yielded about \$20,000,000 for the day, even with letting sterling decline to 4.78 1/4. In order to hold the franc the French control had yielded the equivalent of about the same amount. There is quite a pessimistic atmosphere on the Paris exchange market, and dissolution of Parliament is even spoken about.

END MESSAGE.

BULLITT.

EA:LWW

Oct. 3, 1938

Hon. A. J. Altmyer,
Chairman, Social Security Board,
Washington, D. C.

Dear Mr. Altmyer:

I have your letter of August 24, 1938 (13:0) requesting the Treasury to maintain in banks, which are members of its depositary system, balances commensurate to the services rendered by such banks in connection with checks drawn upon benefit payment accounts, comprised of State unemployment funds which are also maintained therein. Your statement is noted that the purpose of such balances would be to eliminate the need for the direct payment of bank service charges out of funds granted by the Social Security Board to State unemployment compensation agencies for administrative purposes, or, in lieu thereof, the withdrawal from the Unemployment Compensation Trust Fund in the Treasury of amounts sufficient to compensate the banks in which the benefit payment accounts are maintained.

It is noted also that, should it be necessary to adopt the policy of direct payment of bank service charges out of appropriated funds, such charges, at the minimum, may approximate \$180,000 per month or in excess of \$1,000,000 per annum.

In view of the conditions set forth in your letter, the Treasury is willing for the present to maintain balances of Treasury funds with depositary banks, designated under the provisions of Treasury Department Circular No. 176, copy of which is attached hereto, in such cases as it may be necessary or desirable in order to eliminate the direct payment of bank service charges. In this connection, attention is invited to the fact that, under existing law, the Secretary of the Treasury has authority only to designate banks which are members of the Federal Reserve System as depositories of public moneys for general purposes. In one or more instances, it has been noted that the State agencies have selected depositories which are not members of the Federal Reserve

- 2 -

System; and, while it will be the policy of the Treasury to cooperate with such State agencies through your Board in the matter of selecting depository banks, it will be necessary for the Treasury to reserve the right to make the final selection of depositories with which the Treasury balances are to be carried.

It is also deemed desirable for the Treasury to reserve the right, in cooperation with your Board, to amend or modify the policy approved herein as conditions in the future may justify.

It is understood that the Bureau of Unemployment Compensation of your Board will be in a position to cooperate with the Division of Deposits, Office of the Commissioner of Accounts and Deposits, in all matters relating to the procedure to be set up for the proper administration of the foregoing.

Very truly yours,

Secretary of the Treasury

Enclosure

TREASURY DEPARTMENT
Office of the Secretary 56

Date Oct. 3

TO:

Mr. White

Room 208

Received from
Mr. Chen today.
A.L.

See, July

From: MR. LOCHHEAD

MEMORANDUM ON GERMAN BARTER AGREEMENT

The German Barter Agreement was concluded between China and Germany at the end of 1934, under which Germany sets aside a credit of Reichsmarks 100 million against which China can draw to purchase German goods, mainly arms and ammunitions. The credit is revolving in nature, replenishable from time to time by shipments of raw materials from China. Anything can be ordered by China from Germany up to the amount of the credit and no cash payment shall be required up to 100 million Reichsmarks.

The terms of the said Agreement provide:

1. That a revolving credit of Reichsmarks shall be established.
2. That interest of 5% per annum shall be paid by the Chinese Government on amounts drawn under this credit.
3. That the Chinese Government shall supply the German Government such agricultural products and mineral ores as required by the German Government.
4. That prices of Chinese products shall be quoted in Chinese National Currency according to market and be converted into Reichsmarks basing on the official rate of The Central Bank of China.
5. That German Government shall appoint an agent in China who shall be authorized to accept Chinese products on behalf of the German Government.
6. That weight and analysis of goods shall be ascertained at port of shipment by mutually appointed surveyor or analyst whose decision shall be considered final.
7. That in the event that Chinese Government ceases to ship goods in accordance with the terms of the Agreement, the

amounts drawn under the credit shall be repaid within three years together with interest thereon after a lapse of two years.

The credit was actually opened with Deutsche Golddiskonto Bank on approval of German Minister of Finance in the name of The Central Bank of China acting as agent for the Chinese Government in July 1936. At this time Hapro - Handelsgesellschaft fur Industrielle Produkte which was formerly a private enterprise and is now under control of the Economic Department of the German Ministry of Defense, was appointed as the Purchasing Agent in China and Selling Agent in Germany.

Chinese goods shipped are mainly mineral ores such as wolfram, tin, antimony and agricultural products China grass, ground nut kernels and oil, woodoil, sesamum seeds, cotton seed oil, pig lard, goatskins, eggs, hide, silk, etc.

Orders which were placed by the Chinese Government up to present amount to approximately 300 million Reichsmarks but to date actual delivery amount to 156 million Reichsmarks comprising of various goods, mostly arms and ammunitions.

We understand that since the recall of the German military advisers, the German Government has ceased to make shipments to China.

WASHINGTON, D.C.
October 3, 1938

58-A

Treasury Department
Division of Monetary Research

Date.....1938

To:

Received from Mr. Chen October 7, 1938.

MR. WHITE
Branch 2058 - Room 200

WASHINGTON, D.C.

October 4th, 1938

Supplement to Memorandum on
German Barter Agreement

The outstanding balance due to Golddiskonto Bank as of the end of September 1938 amounts to Reichsmarks 41,127,000.

The Agreement is still legally operative. Since Germany has recently ceased shipments to China, the activities under the Agreement have much curtailed and its future depends upon Germany's resumption of shipments.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 3, 1938

CONFIDENTIAL

MEMORANDUM TO THE SECRETARY:

Re: Attorney General's Special Committee as to what could or should be done to control prices under absolute neutrality of our own country in event of disturbance in Europe.

The above Committee was called to meet in Department of Justice at 3:00 P.M. and adjourned at 6:00 this afternoon.

Present: James W. Morris	Justice	Mr. Meeken	Commerce
Alexander Holtzhoff	"	Mr. Everett	"
Golden Bell	"	O. S. Cox	Treasury
Dr. Ezekiel	Agriculture	C. J. Peoples	Procurement Division
Mr. Appleby	"		

In response to request of the Chairman for sub-committee reports the Director of Procurement submitted the accompanying report entitled "Peacetime Price Control" numbered one.

Commerce submitted the accompanying report numbered two.

Agriculture submitted the accompanying report numbered three.

Each report was read and discussed in turn, and was submitted for tentative consideration only. Such a wide divergence of opinion developed, particularly as between Procurement and Agriculture, as to the methods to be followed that it was decided to continue the studies further.

The Director of Procurement was opposed to many of the features brought out in the suggestions from Agriculture. The principal objections being in this matter of price control:

- (a) To make any sub-agency of the federal government the purchasing agency for belligerent or neutral countries
- (b) To set our own government up in business in the matter of buying surplus industrial commodities with a view toward resale in the event of skyrocketing of prices.


Director of Procurement

26 September 1938

61

PEACETIME PRICE CONTROL

Necessity for Peacetime Price Control:

Control of prices in this country in times of peace has been applied only to maintain those above established minimum figures. During the recent depression the N.R.A. operated on this principle. The present A.A.A.'s control over agricultural prices and the Bituminous Coal Commission's control over the prices of bituminous coal likewise are exercised to prevent prices falling below established minimum figures.

The problem with which we are now confronted is one of a different nature, and arises by reason of the present critical European situation. Should war break out between major European powers, sooner or later this country would be flooded with large volume orders for a vast variety of our products. If this potential foreign trade were uncontrolled, demand would ultimately exceed our capacity to produce, prices would rise sharply, and our entire economic structure would be thrown out of equilibrium.

Such a situation developed prior to our entry into the World War, with resulting disastrous after effects. Analysis of the situation which then obtained and that with which we may now be confronted reveals that domestic economic conditions today are in many respects different from those of 1914-15, but that, should a major war develop in Europe, and no price control measures be imposed, the general trend of prices would be about the same as that which preceded our entrance into the World War. Disruption of international trade would first cause domestic prices to recede. Then, as increased foreign orders absorbed existing unutilized capacity, prices would rise. Finally, when production reached capacity, further increases in foreign orders would cause very sharp price increases, with resulting upheaval of our entire national economy.

It is this final phase of the trend of prices with which we are now concerned. Neither the magnitude nor the character of increased foreign demand can be definitely forecasted; nor can the rapidity with which this demand will manifest itself be accurately predicted. It does seem reasonable to predict that it will take some time for economic forces to adjust themselves to the point where domestic plus foreign demand will absorb our present unutilized capacity. That this point will ultimately be reached, should a major war in Europe continue for any length of time, seems inescapable. It therefore appears mandatory, should such a war occur, to develop a mechanism of price control that will be ready to function when the necessity for its application asserts itself.

Means of Control:

There are, broadly speaking, three means of controlling prices from skyrocketing. The first is of the type now exercised by the A.A.A. The extension of this type of control to the extent of setting the Government up in business to buy and sell industrial commodities is not recommended. It would entail extensive federal financing, and would comprise a departure from the normal means of doing business which would be resented strongly by business in general. It would require congressional action to do so.

The second means available is that of arbitrarily establishing maximum limits beyond which prices may not rise. Such a method not only fails to adhere to normal peacetime business methods, with the probability of causing resentment on the part of industry, but is superficial in that it attempts to deal with the results, rather than the causes, of possible price rises. For these reasons, this second method is not recommended.

The third means available underway to ascertain the causes of price dysregulating and apply the remedies at the source. This method of control, especially in those of . . . , must be exercised largely by indirect means, supplemented by such voluntary cooperation as can be attained through various methods. Voluntary cooperation of all parties concerned is essential for the acceptance by the public of any system of control, but undirected voluntary cooperation alone will not suffice. To make control effective, a unified mechanism should be created by Executive Order, say a "Central Price Control Authority" to study the causes of price fluctuations, to keep abreast of their effects as reflected in price levels, to know when to apply the remedies, and to coordinate all direct and indirect means available for their application.

The scheme proposed is built upon the principle of coordinating within the organization an interlocking directorate, not only between the Central Price Control Authority and existing governmental agencies through whom indirect measures of control may be applied, but also between the Central Authority and Industry, between the Central Authority and Agriculture, and between the Central Authority and the Public.

Organization:

The organization diagrammatically shown on the accompanying chart (Exhibit A) is an attempt to portray how control of prices can be exercised in those of price without legislation. Flexible legislation empowering the President to set up a central Price Control Authority to coordinate the efforts of existing governmental organizations may ultimately be required, but the framework of such a body, it is believed, could not be constructed by utilizing the services of existing Government personnel and by enlisting the services of a few public-spirited men now in private life.

This Central Price Control Authority is visualized as being composed of the following members:

- (a) As chairman of the Price Control Authority, a representative of industry - one who understands business thoroughly, but who has no political ambitions, whose background is broad, and who has no direct affiliation with any particular industry.
- (b) A representative of public services - one who realizes the public's stake in this problem, and one who would be empowered to coordinate the fast-moving facilities of the Government such as are embodied in the Federal Trade Commission, the Interstate Commerce Commission, the Bureau of Foreign and Domestic Commerce of the Department of Commerce, the Bureau of Mines of the Department of Interior, and the Bureau of Labor Statistics of the Department of Labor. A sub-authority under this representative's direction, composed of experts of these agencies, might be formed to advise the Central Authority on activities these agencies normally handle.

- (c) A representative of the present A.A.A., leaving to this agency, the control over agricultural products now exercised.

- (d) A representative of the present Minimums Coal Control Agency, to exercise control over fuel in the same manner as specified for agricultural products in the preceding paragraph.

- (e) A representative of the State Department - one who understands the reciprocal trade agreements already entered into or under consideration.

- (f) A representative of the Treasury Department - one who can coordinate credit policies, and work in liaison with the R.R.C., the Federal Reserve System, the R.T.C. and the other various governmental lending agencies.

(g) A representative of labor - one who commands the respect of labor, industry, the Government and the public at large.

To assist the Costumal Prices Control Committee in consolidating the basic information required for formulating its policies, Costumal Committees should be organized. Exhibit B suggests a grouping of such Costumal Committees. They are constructed to conform to the major subdivisions into which industry has naturally subdivided itself.

It is visualized that these Costumal Committees would parallel in organization, and work in close cooperation with, the existing trade associations of industry, who represent member firms and through whom the voluntary cooperation of individual firms can best be obtained.

With such an organization, member firms who would not voluntarily cooperate could be brought into line, and foreign orders controlled not only as to volume but as to distribution among domestic producers. Foreign buyers could be reasonably certain of an orderly flow of materials within the volume permitted, and would be assured of reasonable prices. At the same time, and, most important of all, the stability of our price structure would be maintained.

Transition to War:

If we should be drawn into war, the emphasis would be shifted from stability of prices to realization of the last indispensable unit of essential production where needed. This might entail application of a different degree of price control, but the mechanism set up would be readily adaptable for conversion to a wartime Prices Control policy. For example, the Trade associations could be used as the war services committees now projected in the Industrial Mobilization Plans; the Costumal Committees could be employed in identical capacities as a part of the projected War Resources Administration; the Airline-Owners to the foreign baggageless purchasing agents could form the nucleus of the projected War Trade Board; and the Federal Reserve System, the R.F.C. and the B.R.C. could continue to perform in wartime the identical functions they perform in times of peace. This organization would fit, in other words, into the present Industrial Mobilization Plan, which, incidentally, has been prepared not on the principle of military requisitioning, but upon mature consideration of economic forces and the psychology of the American people.

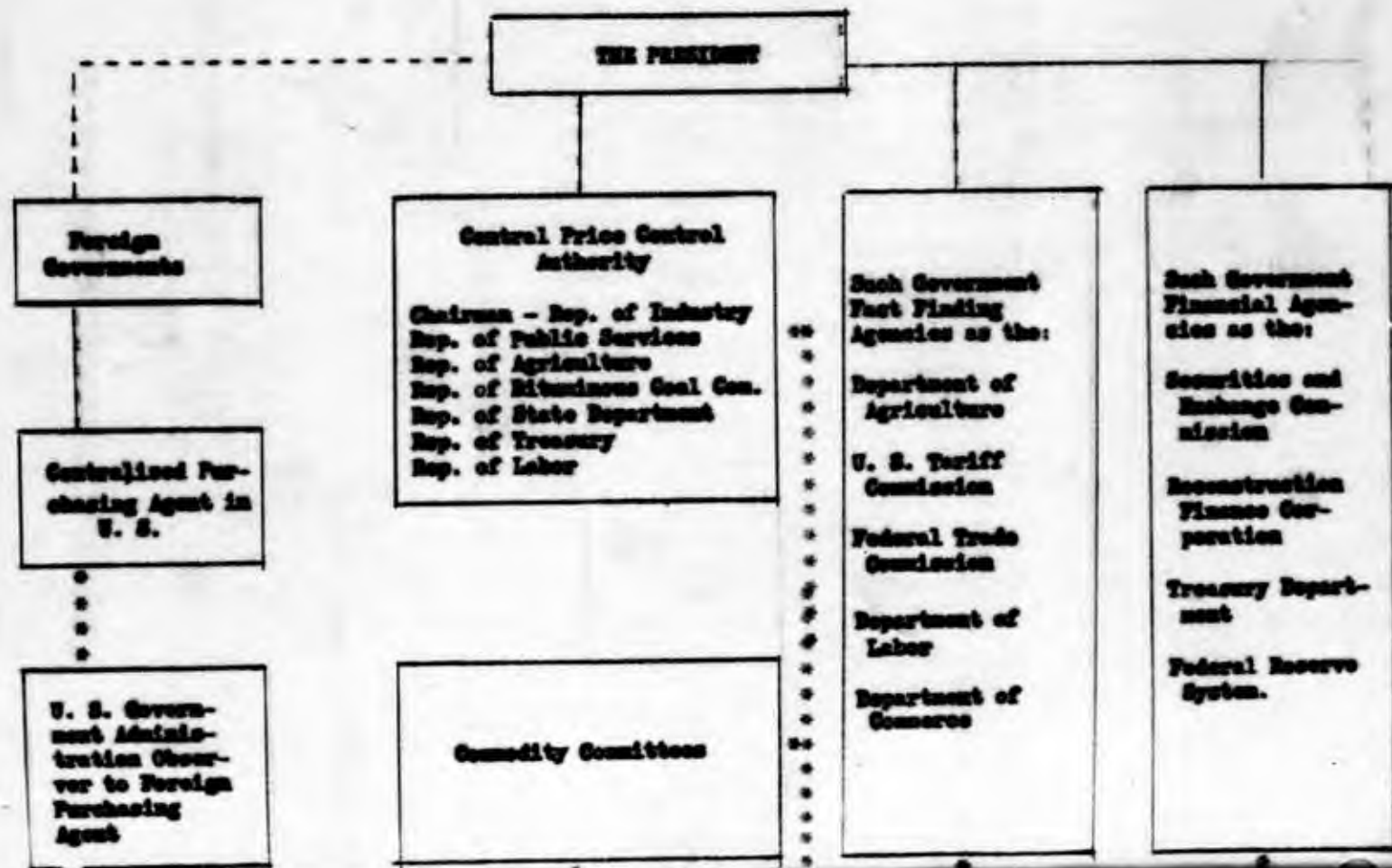
Flexibility of Application:

Under no circumstances should this or any other plan be considered an approach to the problem from which we cannot deviate. We must feel our way as we go, progress by trial and error, profit from experience, and permit whatever Control Body is set up to exercise sound judgment not only in the formulation of its policies, but in the allowances and scope of their application. Even in peacetime, direct measures of price control, based upon results of factual investigation, might be required, and authorizing legislation enacted for its application. In time of war, such measures of direct maximum control would undoubtedly be required. However possible, however, indirect methods should be employed in preference to direct methods, and emphasis placed upon those features which cause price fluctuations rather than upon the prices themselves.

W. L. C.

_____ Direct Control
 - - - - - Indirect Control
 * * * * * Liaison

ORGANIZATION FEDERAL CONTROL OF PRICES



October 1, 1938

65

REPORT OF THE AMERICAN INDUSTRIAL SURVEYORS

Suggested Division

**Group I
Minerals and Metallic Raw Materials**

- (1) Iron & Steel
 - a. Castings, Forgings, Blooms, & Billets
 - b. Shapes, Plates & Rails
 - c. Sheet & Tin Plate
 - d. Wire & Tubular Products
- (2) Non-ferrous metals & Minerals
 - a. Non-ferrous metals
 - b. Coal & Coke
 - c. Petroleum & Products
 - d. Non-metallic Minerals & Miscellaneous

**Group II
Fuels**

- (1) Chemicals & Explosives

**Group III
Animal & Vegetable Raw Materials**

- (1) Provisions
- (2) Textiles and Clothing (Including cotton and wool)
- (3) Forest Products
- (4) Fibers

**Group IV
Manufactured Products**

- (1) Automotive and Aviation Products
- (2) Hardware and Hand Tools
- (3) Machine Tools
- (4) Electrical and Power Machinery
- (5) Miscellaneous

Table 10

DEPARTMENT OF COMMERCE
Bureau of Foreign and Domestic Commerce
Washington

MEMORANDUM

A search has been made for any authority for directly controlling the prices of specific commodities outside the field of agriculture, and, except for isolated instances, such as bituminous coal, oil, gas and electricity moving in interstate or foreign commerce, no means consonant with existing legislation has been found.

The suggestion advanced that a corporation to deal in the specific commodity might be organized under the Export Trade Act (Webb-Pomerene Law) and financed by an existing agency such as the Reconstruction Finance Corporation is deemed unsatisfactory, since a principal provision of the Act is that such corporation

"...does not, either in the United States or elsewhere, enter into any agreement, understanding, or conspiracy, or do any act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association or which substantially lessens competition within the United States or otherwise restrains trade therein."

Any scheme to use trade associations or special committees of industry as means to influence prices would appear to suffer the same defect, and could operate only in case enforcement of the law should be suspended.

On the foregoing premise, it is apparent that additional legislation is required. The scope of such legislation is a question admitting a wide range of suggestions. The three most practicable of these, in the absence of the ability to predict what specific commodities it will be necessary to control, so as to subject them to special legislation similar to that covering coal, oil, gas and power, appear to be

1. Provision for the establishment of central purchasing agencies for belligerent powers with authority to establish and modify quotas:
2. Legislation to permit allocation of shipping space in vessels under Federal subsidy. (There is here a remote possibility that new contracts covering the operating differential subsidy could carry a clause saving this privilege to the Government.)
3. Establishment of a system of export licenses, with authority to determine when the continued exportation of specific commodities is detrimental to our foreign relations, national defense and general welfare.
4. Acceleration, in time of low prices, of the procurement program of the Government, particularly in military requirements, in order to forestall the effect of adding, during the emergency period, a new impetus to the general price level and particularly to the price of special war time commodity requirements. This would require a new schedule of appropriations, and it could be coupled with an extension of the experiment of "trial orders" made by the last session of Congress.

October 3, 1938.

October 3, 1938.

Suggestions for preventing undue advances in
steel and copper.

Method I. The use of a government-owned or controlled reserve supply, to be released to the market in times of advancing prices.

I-A Purchase of commodities

1. Funds used, advanced by R.F.C. (see Exhibit 1, page).
2. Purchase, storage, and resale operations, to be conducted by Federal Surplus Commodities Corporation (see Exhibit 2, pages 1-3), or by new corporation (Exhibit 1, pages ____ to ____).
3. Specification of kinds and amounts of commodities to be purchased, to be based upon data to be supplied by the Joint Army-Navy War Plans Board.
4. Price to be paid, to be negotiated in advance on basis of analysis of relation of production and price to profits in the industry, so as to yield a reasonable return in view of the level of production which will result from the orders. (See Exhibit 3.)
5. Purchase and sale policies, as to the amount and time to be established by the Commodity Operations Committee (See Exhibit 4, pages 5 to 6, and Chart 1.)

- 2 -

I-B Loans on commodities.

1. Funds used, advanced by R.F.C. (See Exhibit ___, page ___).
2. Loan operations, to be conducted by commodity credit operations. (See Exhibit 1, pages ___ to ___).
3. Specifications as in I-A-3.
4. Amount of loan, and price at which resale to consumers will be made, determined as in I-A-4.
5. Loan and release policies, as in I-A-5.

Method II. Pooling orders through a single U. S. government agency to act as broker.

1. Pooling of orders to be obtained either:
 - (a) by diplomatic agreement with foreign powers, or
 - (b) by restricting licenses for use of foreign exchange to orders placed through such a pool (See Exhibit 5.), and
 - (c) by U. S. government control or negotiation for sale of foreign-held securities. (See Exhibit 6.), and
 - (d) by U. S. government control of new foreign loans floated here (under Johnson Act and other State Department powers or regulations. See Exhibit 7.)
2. Brokerage operations to be conducted by Surplus Commodities Corporation (See Exhibit 2, page 6.)
3. Specifications to be as determined by foreign purchases.
4. Prices to be paid, to be negotiated as in I-A-4, under policies set by Commodity Operations Committee, as in I-A-5.

3

- 3 -

Method III. Classification of prices under Neutrality Act.

1. Price to be limited by applying Neutrality Act, and by classifying commodities above a given price as coming under that Act (Of doubtful legality under existing legislation - legal opinion needed).
2. Price policy to be determined as in I-A-4 and I-A-5.

Method IV. Use of consolidated buying power of federal government for normal and emergency operations.

1. Orders based on federal needs or federal financing to be centralized, or limited to centrally-negotiated prices, through Housing and Construction Committee (Exhibit 4, pages ___ to ___, and Chart 1).
2. Prices, to cover both U. S. government purchases and sales to others, to be negotiated through the commodity policies committee (Exhibit 4), under general policies stated in I-A-4.
3. Concerns which refuse to follow these prices to be excluded from all U. S. government or government-financed purchases, (legal authority subject to investigation).

Method V. Use of control over rolling-stock and other transport facilities.

1. Authority. Existing public utility powers in I.C.C., Maritime Commission, etc., plus voluntary arrangements with carriers. (in case of unwillingness to cooperate voluntarily, legislative authority might be needed).

3

- 4 -

2. Control. Issuance of licenses for movement of particular lots, or for priority in receiving cars, etc. for shipments coming within planned operations.
3. Specifications. as to quantities of each product, and price ranges, to be eligible for license or priority preference, to be worked out same as in I-A-3 and I-A-5.
4. Administration of shipping control to be developed under the Utility Committee, through its Transport Subcommittee.
(Exhibit 4, paragraph A-8, pages ___ to ___.)

Method VI, Control or regulation of price increases, by yardstick plants.

1. Where government-owned plants are available, (T.V.A., armor plate), their operations with proper accounting, could be used as a basis for establishing reasonable costs for private plants. This could be administered through the powers of the existing agencies.
2. Where government-owned plants are not available, individual private plants might be operated under government observation and accounting control, to determine costs. This might be done under voluntary contract with the owners for the use of individual plants.
3. Funds might be used from existing funds for commodity purchase (War Department, etc.), or from R.F.C. loans (legal basis to be explored.)
4. Price policy in use of costs to be determined by Commodity Committee and Utilities Committee (Exhibit 4.)

73

- 8 -

Method VII. Prevent price increases through control over principal investment channels in the allocation of capital for new plant.

1. Authority. Use of S.R.C. and other existing controls over investment. (Adequacy of powers to be explored.)
2. Administration. Investment control through financial committee, plus Commodity priority and volume decisions through commodity committee. (Exhibit 4.)

Respectfully submitted,

Subcommittee on Indirect Methods.

Paul H. Appleby

Mordecai Ezekiel



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 3, 1938

MEMORANDUM FOR THE SECRETARY

The matter of trading or exchanging surplus wheat for critical and strategic commodities has been explored with the following results.

- A. The Secretary of War and the Secretary of the Navy have recommended during the past several years that reserve stocks of certain strategic materials be secured up to a value of \$95,000,000. The Navy has already obtained appropriations of \$3,500,000 and is procuring reserve stocks to this amount.
- B. The Federal Surplus Commodity Corporation has indicated that there is a surplus of wheat which it is desired be disposed of through export channels.
- C. It is further desired that such disposition be effected through barter or exchange with countries having wheat deficiencies for materials of a strategic and critical nature.
- D. Such wheat is to be disposed of at a fair market value, the difference between such value and the price at which the wheat had been acquired to be borne by the Department of Agriculture.
- E. Preliminary arrangements for a loan by the Federal Surplus Commodities Corporation from the Reconstruction Finance Corporation have been made in order that the Federal Surplus Commodities Corporation may be reimbursed for the value of wheat traded for strategic and critical war materials.
- F. Such materials, the title to which will rest in the Federal Surplus Commodities Corporation, will be stored at the United States Naval Ordnance Plant at Charleston, West Virginia, under the custody of the Procurement Division. In order to prepare the Ordnance Plant for such storage, repairs and alterations to the extent of \$40,000 will be necessary, and it is recommended that a WPA project to effect this be obtained and that such money be allocated to the Navy.

- G. Efforts will be made by both the Army and the Navy to obtain an appropriation for the establishment of a stock of critical war materials. Such appropriation will be used to reimburse the Federal Surplus Commodities Corporation for commodities procured under this proposed procedure. The loan from the Reconstruction Finance Corporation will be similarly liquidated.
- H. It is understood that the Agriculture Department is clearing with the State Department the question of the export of this wheat.

The attached list, which was presented by Mr. Wilcox, Vice President of the Federal Surplus Commodities Corporation, indicates quantities and countries having a wheat shortage from which available strategic war materials might be obtained. These quantities were discussed at a conference held on September 30th between the Procurement Division and representatives of the War and Navy Departments, and it was developed that they are not in excess of the requirements of the Navy alone.

It is proposed to prepare formal proposals for the quantities indicated, using specifications which are uniform in both the Army and the Navy, and providing in such specifications that payment for the materials asked for will be made in terms of bushels of wheat. In issuing such proposals consideration will have to be given to the supply of these commodities which is readily available in order that there may be no disruption of the markets concerned which would tend to result in unreasonably high prices.

It is urgently recommended that the foregoing proposed procedure be approved.


G. J. Peoples
Director of Procurement

Approximate Goals for One-Year Program for Exchange of Wheat In Order to Secure Desirable Strategic Materials
Fiscal Year 1938-39

Country	Chromium Oxide			Manganese			Tin			Tungsten			Total	
	Pos- sible	Gross Value	Quantity of Metal	Pos- sible	Gross Value	Quantity of Metal	Pos- sible	Gross Value	Quantity of Metal	Pos- sible	Gross Value	Quantity of Metal	Pos- sible	Gross Value
	Wheat	or	to be	Wheat	or	to be	Wheat	or	to be	Wheat	or	to be	Wheat	or
	Export	Loan	Sold	Export	Loan	Sold	Export	Loan	Sold	Export	Loan	Sold	Export	Loan
	Basis			Basis			Basis			Basis			Basis	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	mil. bu.	mil. dols.	tons	mil. bu.	mil. dols.	tons	mil. bu.	mil. dols.	tons	mil. bu.	mil. dols.	tons	mil. bu.	mil. dols.
Brazil				1.6	1.1	52,300							1.6	1.1
Cuba/1				2.0	1.5	57,300							2.0	1.5
Greece	0.4	0.3	11,000										0.4	0.3
Netherlands and Netherland India							12.0	8.9	11,100				12.0	8.9
Total 5 Countries	0.4	0.3	11,000	3.6	2.6	119,600	12.0	8.9	11,100				16.0	11.8
U.S.S.R./2													2.0	1.5
British Empire/3													10.0	7.4
TOTAL													28.2	20.7

1. Cuba is a source of manganese and chromium oxide. It is believed that additional supplies of 2 million bushels are all that may be anticipated. Consequently the expenditure might be made for either manganese or chromium oxide.
2. Possibilities here have not been fully explored. The U.S.S.R. has been a source of supply for manganese (35 per cent of United States 1936 imports), and chromium (16 per cent of United States 1936 imports). The U.S.S.R. is now exporting low quality wheat but may possibly be interested in some imports of United States wheat.
3. See text. The British Empire is a principal supplier of tin, manganese, chromium, and Tungsten. The areas producing supplies probably do not require United States wheat, however, the United Kingdom might possibly be induced to become a purchaser of 10 million bushels of wheat in connection with sales of these materials.

Oct. 3, 1938

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE October 3, 1938

TO Secretary Morgenthau
FROM Mr. Haas 
Subject: The Business Situation,
Week ending October 1, 1938

Conclusions

(1) The peaceful settlement of the Czechoslovakian dispute has improved the business picture by removing a depressing factor which for a period of months had been a recurring threat to our business recovery. To the extent that business has been retarded by the fear of war, the elimination of war fears should remove this brake on the recovery movement. The effect of European developments from here on is not known, since other disturbing problems may later arise. If sufficiently serious to retard our business recovery, such developments would doubtless reflect themselves in weakening foreign currencies and declining commodity prices.

(2) If, as some writers believe, the Munich conference has paved the way for a general European understanding, it would have a strong bearing on business prosperity in this country. Such an understanding would go far toward restoring internal confidence in European countries, leading to a repatriation of capital, an improvement in the financial conditions of central governments, and a removal of deflationary pressure on commodity prices. Even though such a goal may not be fully achieved, its partial realization should strengthen the world economic outlook.

(3) Business news during the past week appears somewhat more favorable, particularly with respect to new orders. While the rate of steel activity has declined slightly, new steel orders have improved further under increased buying from the automobile manufacturers. A large volume of new financing, expected to be released shortly, may result in some increase in private buying of materials. A considerable degree of business uncertainty still exists, however, due to the unsatisfactory trend of commodity prices, an uncertain textile outlook, and other factors.

Secretary Morgenthau - 2

The general situation

A definite improvement in the business outlook has been the net result of this week's developments, removing some, though not all, of the uncertainties which had been accumulating in recent weeks. The peaceful settlement of the Czechoslovakian crisis should leave business free to pursue whatever trend had previously been developing. It is possible that the sudden relief from a war tension such as the world has probably never before experienced, accompanied by sensational upturns in security prices here and abroad, may itself provide some temporary stimulus to business.

The prospect, mentioned by some writers, that a general settlement of many of the political difficulties which have threatened the peace of Europe may grow out of this week's conferences, if realized, would be highly important in the world economic outlook. A general peace agreement would tend to strengthen internal confidence in Europe, lead to a repatriation of capital, and improve foreign currencies. Its most important influence on business in this country would probably come about through a removal of the deflationary pressure on commodity prices, which, during the past two months, has become a serious threat to our recovery program.

On the other hand, no one doubts that serious international difficulties aside from the Czechoslovakian situation continue to exist, making it impossible to predict the trend which European developments may take from here on. Such developments, however, are likely to be reflected in foreign currencies and in commodity prices, which may provide an early indication of the trend which is under way. Sterling exchange, though sharply higher than at the time of the war crisis, is still at the level reached at the time of the first Chamberlain-Hitler conference, and the franc remains similarly weak.

Current business indices

The New York Times business index for the week ended September 24 declined 1.3 points to 84.2. The decline was due in large part, however, to the flood and hurricane in New England, which seriously affected electric power production in that area, and had some effect on cotton mill activity. Both of these indexes showed more than a seasonal decline, the power output figure being tentative. These were partly offset by a greater than seasonal rise in automobile production, while other series in the index showed little change.

Secretary Morgenthau - 3

Basic demand improves

A moderate improvement in estimated basic demand for manufactured products occurred during August, with each of the major industrial groups sharing to some extent in the increase. (See Chart 1) Industrial production, however, has increased more rapidly than basic demand, and again exceeds demand in some industries. This is particularly true of textile production, next in importance to steel in the FRB index, which increased in August to about 8 percent above the estimated demand level. Crude petroleum production is likewise running above the level of basic demand, after a drastic control program earlier in the year had brought about a downward adjustment. The same is true of petroleum refining activity.

Textile production is already starting to decline, following its excessive summer upturn, judging from the New York Times index of cotton mill activity. This seasonally-adjusted index (See Chart 2) has tended downward since the middle of August.

The automobile industry occupies the most favored position with respect to basic demand, which is materially above the current level of production. This may be taken as foreshadowing a strong improvement in automobile production during the 1939 model year, which in turn would be influential in raising the level of basic demand in the steel industry. The improving demand for cement and lumber reflects the rising trend of construction, both for heavy construction projects and for home building.

New orders increasing

A further increase in new orders during the past week (See Chart 3) strengthens the immediate business outlook, though the increase is largely of a seasonal nature. Most important is a further increase in steel orders, resulting from an improvement in demand for steel from the automobile industry and from shovel manufacturers. Orders reported by the U. S. Steel Corporation have increased to the equivalent of 53 percent of capacity, as compared with 48 percent during the previous week. Steel activity, in the meantime, has declined to 46.7 percent of capacity, as compared

Secretary Morgenthau - 4

with 47.3 percent last week. Steel trade observers attribute the decline to the fact that steel makers have accumulated sufficient inventories for the time being, and will await an expansion of orders before increasing production further.

Orders for cotton textiles have also increased seasonally, though apparently not reaching the current levels of production. Operations of cotton mills for about two months have been in excess of new orders, partly because of heavy orders booked earlier in the summer. In recent weeks it appears that mills have been accumulating inventories of finished goods, which lends considerable uncertainty to the fall outlook for this important industry.

The stock market situation

Considering the imminence of actual war, and the collapse in European security markets, the markets in this country held remarkably well during the crisis. In retrospect, this appears to have been due in large part to (1) the lack of any important volume of foreign liquidation; (2) a relatively small volume of margin holdings; (3) current optimism regarding the business prospect in this country; (4) prohibition of short selling except at rising prices.

The relatively small volume of margin speculation in the stock market is indicated by the fact that brokers' loans of member banks on September 14 totalled \$723 millions, not greatly above the figure of \$587 millions for the last week of May, just preceding the rise in stock prices. In contrast, the figure for the first week of August last year, preceding the long decline in the market, was \$1,387 millions. While stock prices now are about 33 percent lower than at that time, brokers' loans have declined 48 percent.

Following the Munich peace agreement, foreigners have rushed into the market to buy American stocks on a scale not seen for some time. This was a factor in the sharp upturn in stock prices at the end of the week, which recovered in four days the ground lost over nearly a month. (See Chart 4) Similar sensational recoveries occurred in the markets abroad.

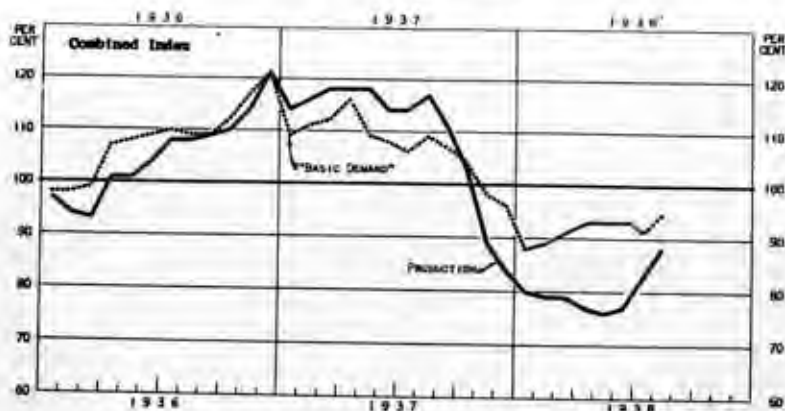
Secretary Morgenthau - 5

One salutary effect of the peace agreement has been the release of new corporate security flotations, which had been held up because of the war situation. New bond issues totalling over \$400 millions, which are looked for within the next few weeks, include:

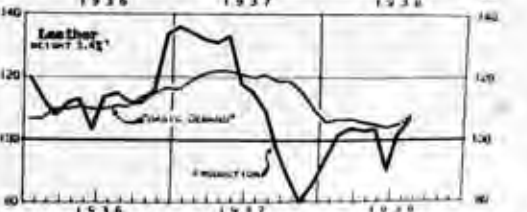
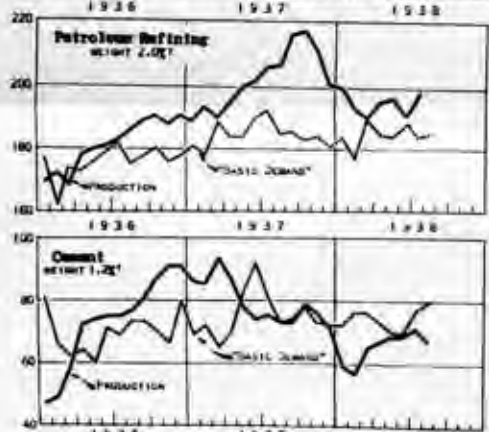
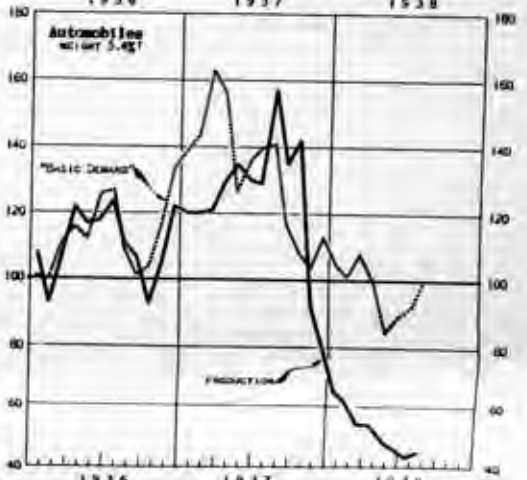
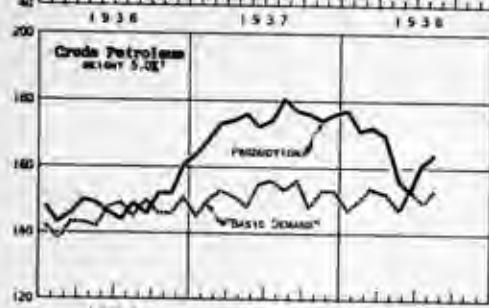
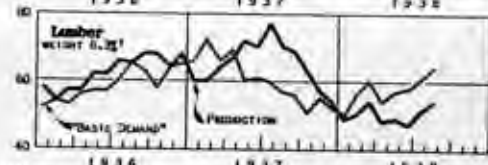
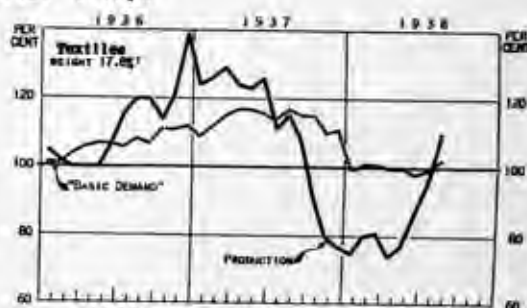
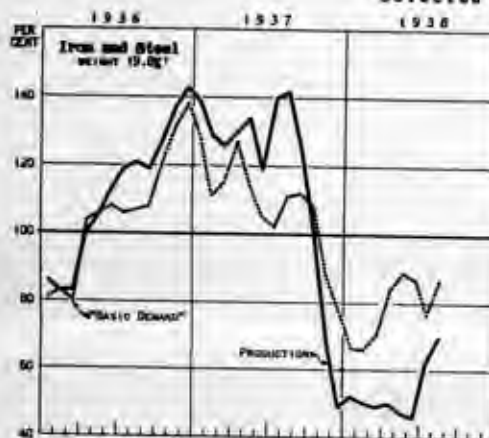
\$ 55,000,000	Ohio Power
80,000,000	Public Service of Northern Illinois
37,500,000	Virginia Electric and Power
42,000,000	Michigan Consolidated Gas
50,000,000	Firestone Tire and Rubber
69,500,000	Wisconsin Electric
50,000,000	Public Service of Colorado
<u>25,000,000</u>	Republic of Argentina

\$409,000,000

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1923-1938 = 100, adjusted



Selected Industrial Groups



NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES.

VOLUME IN QUANTIFIED INDEX

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

Chart 1

C-211

Regraded Unclassified

COTTON MILL ACTIVITY

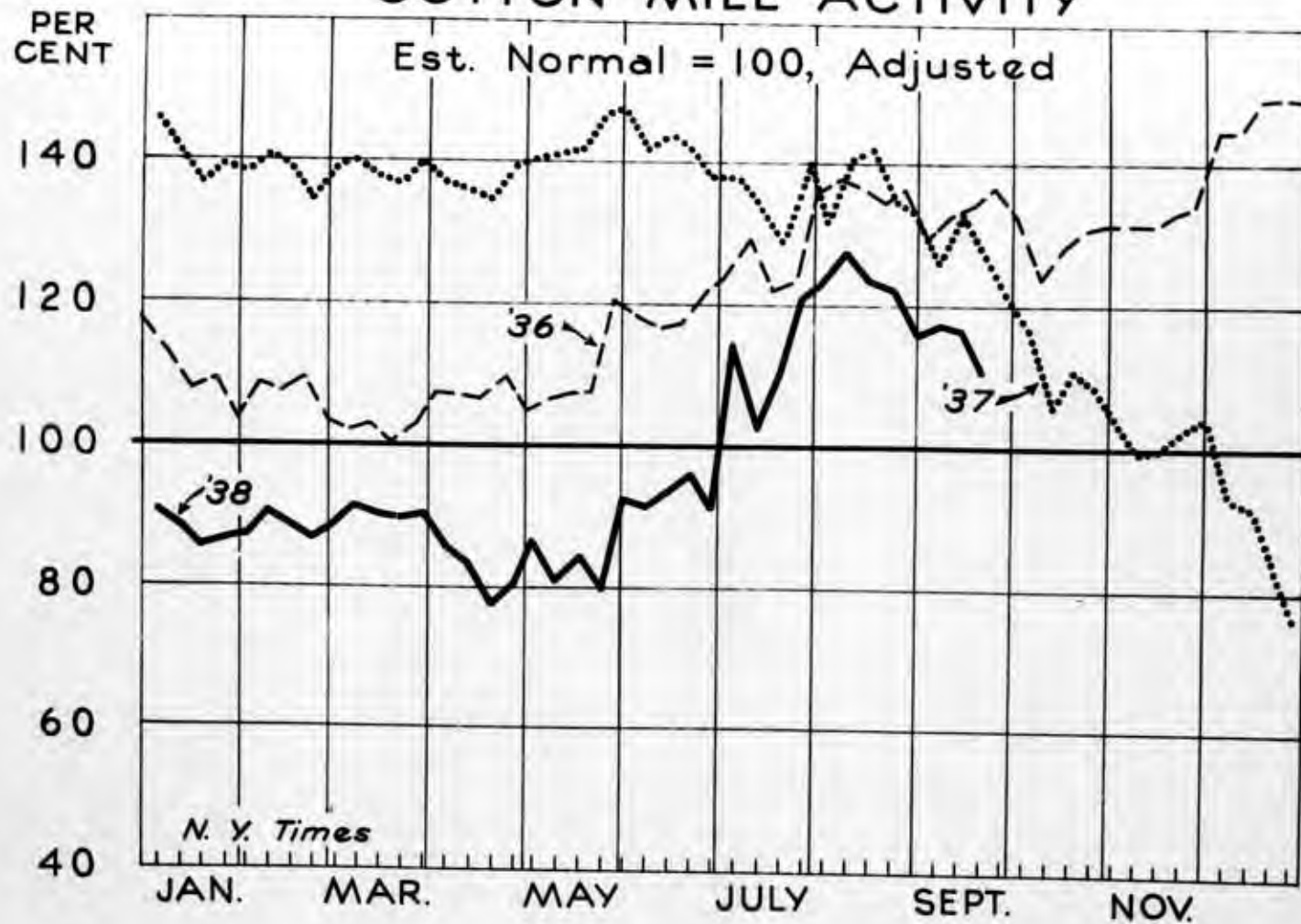
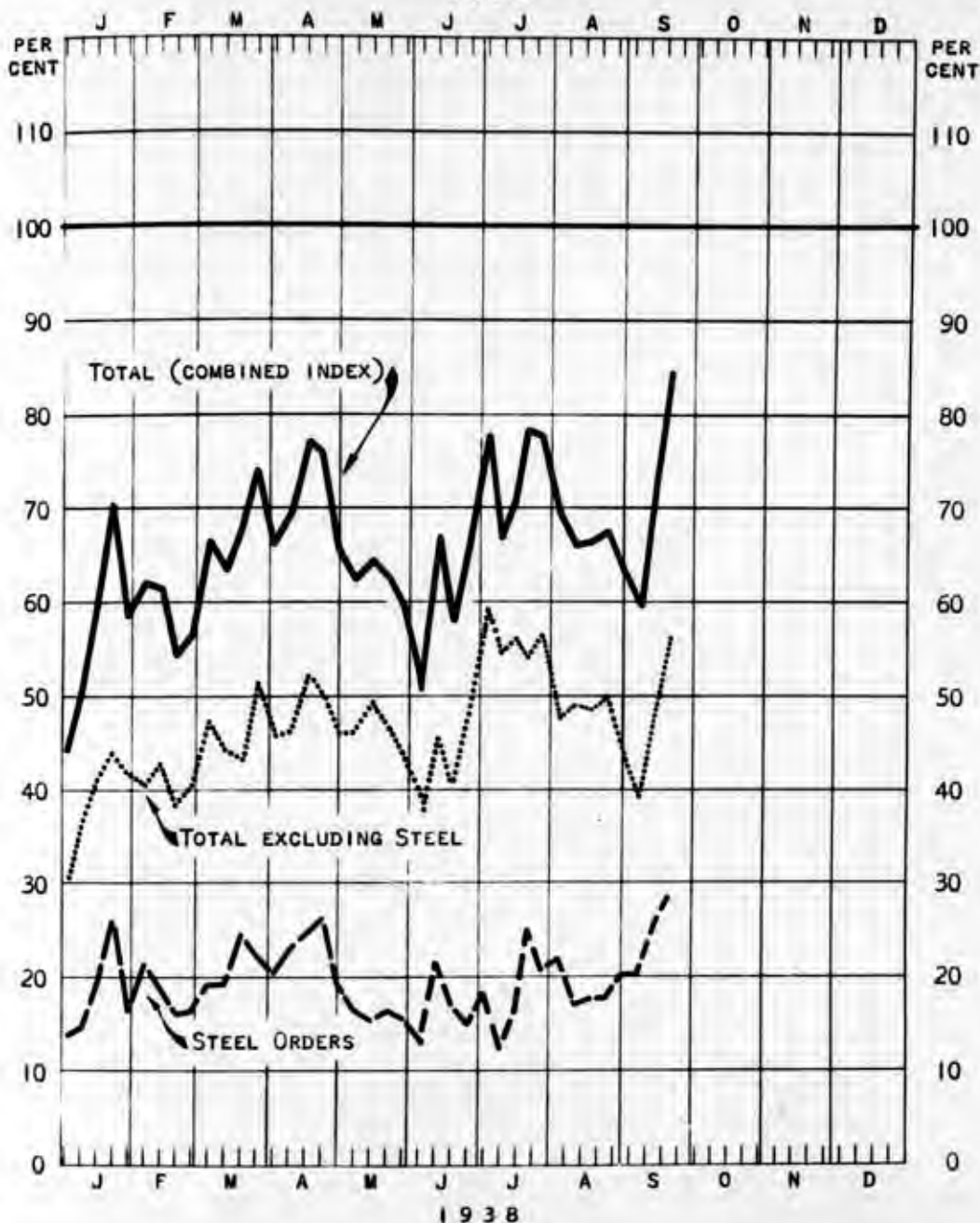


Chart 2

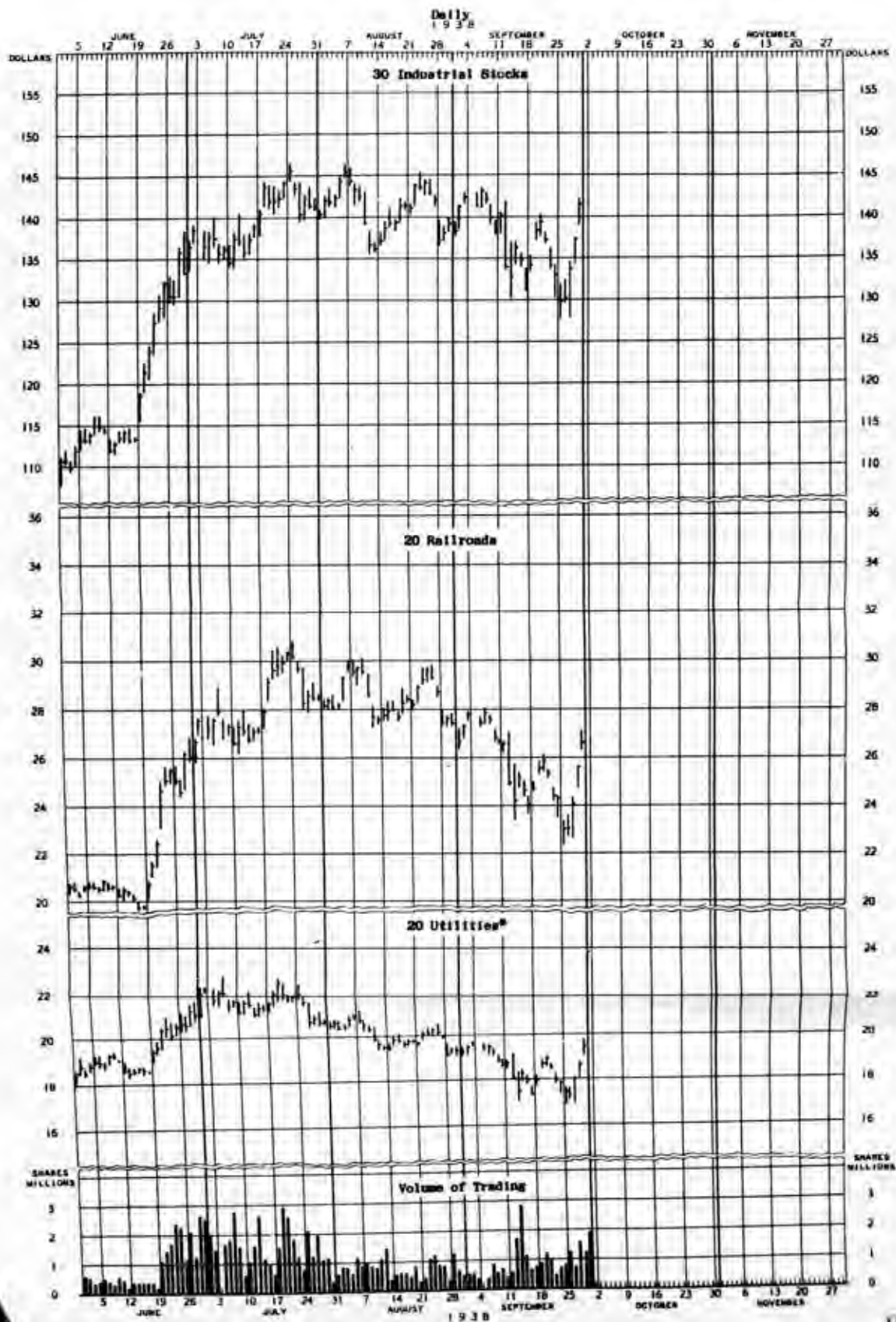
INDICES OF NEW ORDERS 1936 = 100

1938

82



STOCK PRICES - DOW-JONES AVERAGES



115 STOCKS BEGINNING JUNE 2, 1938

PARAPHRASE OF TELEGRAM FROM

FROM: Rio de Janeiro

DATE: October 4, 1 p.m.

NO.: 233.

My 232, October 3, 2 p.m.

The Bank of Brazil announced today the allocation of exchange for August 25th. According to the Director of Exchange, the bank will try to grant additional exchange this week. The Bank has not resumed the purchase of compensation marks as yet.

In commenting on the ~~the~~ scarcity of exchange, the Director again expressed strong hope that the Export-Import Bank would grant the short term credit which is now under consideration and stated that payment for American merchandise could then be effected at once.

Please inform Commerce.

CAFFERY

EA:DJW

CONFIDENTIAL

G-2
J N

84A

MX

G-2/2657-II-90

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

October 4, 1938.

MEMORANDUM NO. 27 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., October 4, 1938.

mm.

General Situation. Since the last memorandum was submitted, the Munich agreements respecting Czechoslovakia have been implemented with military precision in accordance with schedule. The Polish ultimatum also has resulted in the partial occupation of Teschen without incidents. The Czech Government has itself proposed negotiations to Budapest looking toward a settlement of this minority question.

The Hungarians have accepted the proposal, but are now urging that the matter must be settled with speed, and along broad lines. Mussolini is actively sponsoring the Hungarian demands. His suggestions may be sound from the point of view of the interests of Czechoslovakia, Hungary and Italy alike, since if a negotiated settlement is not quickly reached, the probability is great that a less tolerant Nazi regime will succeed the present Hungarian Government.

The question facing Europe to-day is whether the Munich Conference effected an era of peace or merely a respite. A review of the special articles of the best American correspondents abroad indicates that all have withheld their judgments in this matter. While engaging in speculations as to the future, they generally begin or end with an admission of their confusion in the face of recent sensational events. The majority are frankly pessimistic regarding any fundamental change in the situation.

The preponderant opinion is that while Chamberlain averted an immediate war and its terrifying consequences, he did so only under the threat of superior force and at the sacrifice of principles and policies which merely postpone the ultimate decision. The glorification of the ideals of peace, forbearance and intelligence in human relations which have been adduced in

CONFIDENTIAL

CONFIDENTIAL

defense of Chamberlain's compromises have consistently been derided as mere sentimentalism by the leaders of Nazi Germany. Realistic journalists who have followed the development of Nazi ideology cannot accept the thesis that following the last sensational victory attained by undisguised force the German leaders will abruptly adopt "sweet reasonableness" as the weapon for attaining future negotiated settlements.

As the truths are brought out in the brutal sallies in the British Parliament, it becomes clear that Chamberlain primarily has attempted to make a virtue of necessity. Britain and France physically and morally unprepared to face the immediately available military strength of Germany, agreed to accept terms dictated by Hitler. It cannot yet be known whether Chamberlain is a sentimentalist expecting an era of peace dependent upon Hitler's moderation or a realist who avoided initial disaster in a war for which Britain was unprepared. This will be known only when his promises regarding rearmament are materialized.

The popular belief in the sharply contrasted policies of Eden and Chamberlain is unfortunate and not in keeping with facts. Eden, it is true, was violently antagonistic to the Dictators, officially and personally. He had rendered himself ineffective in negotiating with them even on reasonable bases. But he was never the militant conservative, as he is now pictured, intent on defending international integrity and Britain's interests by sure and dependable methods. He was an idealist who for too long based Britain's security upon the collective system. He accepted the principle of rearmament loathingly when his own avowed policies failed. If Chamberlain is a sentimentalist expecting security for the Empire and international justice from Hitler's volition, Eden for several years depended for the same results on the faltering system of collective security. They have both been guilty of the same error, namely, of hoping that the Empire might assure its own security and assert its international will for good or bad without assuming the obligations of being militarily strong.

If the only results in Great Britain and France of the recent crisis are recriminations among the political opposition against the leaders who accepted the lesser of two evils, the future of Europe is indeed dark. If the two democracies cannot escape from the enervating effects of internal controversy, they will face a critical future at the hands of those states which declaredly entertain no illusions as to the fate of the weak.

CONFIDENTIAL

84 C

CONFIDENTIAL

Military Situation. Following is the substance of press reports covering measures of military-political interest.

Great Britain -

Patriotic volunteers who enlisted at the height of the crisis were given the option of discharge with a small bonus. There are no reports of further relaxation of measures of defense.

A loan of 50 million dollars has been made to Czechoslovakia.

Chamberlain told Parliament that the rearmament program would not be relaxed at present. He said:

"For a long period now we have been engaged in this country in a great program of rearmament which is daily increasing in pace and volume.

"Let no one think because we have signed this agreement between the four powers at Munich we can afford to relax our efforts or call a halt in our armaments at this moment.

"Disarmament on the part of this country will never be unilateral again. We have tried that once and we very nearly brought ourselves into disaster."

France -

Demobilization of reservists is proceeding, older men and those with families being first released. Within 10 days or two weeks the army is expected to revert to its approximate normal strength. Her partial mobilization (some 600,000 reservists called) and other defensive measures have cost France at least 10 million dollars.

Daladier, it is believed, in defending the Munich accord before the Chamber, will say that France was never definitely assured at any time of full and unconditional assistance from Great Britain and Russia if she had made war on Germany in support of Czechoslovakia.

The new foreign policy of the country is reported to include, (1) approval of program of mutual disarmament measures among the major powers, (2) establishment of friendly relations with Italy, (3) prompt settlement of Spanish civil war.

Italy -

An official diplomatic communique urged the prompt settlement of the claims of the Hungarian minority in

-3-
CONFIDENTIAL

Regraded Uclassified

CONFIDENTIAL

84D

Czechoslovakia. The press showed resentment over statements in France that Mussolini suggested the Munich conference because the Italian people were opposed to going to war - particularly against France.

Germany -

Occupation of Sudeten areas by units of German Army proceeds according to Munich agreement without serious incident. It is reported German demobilization will not begin until after October 10, following completion of the occupation of Sudeten territory.

Russia -

An unconfirmed report from London says that Marshal Bluecher, Chief of Soviet Far Eastern Army, has been deprived of his command and confined to his quarters. It is rumored that he has been "liquidated."

Poland -

Polish troops began occupation of the Teschen area of Czechoslovakia on October 2 and are scheduled to complete occupation by October 10. A military regime has been imposed. The area covers 320 square miles with a population of 260,000 (including 169,000 Poles). It contains mines producing annually two million tons of coal and three million tons of coking-coal, also steel mills and a 60-mile railway line.

mc

CONFIDENTIAL

TREASURY DEPARTMENT

85

INTER OFFICE COMMUNICATION

DATE: October 4, 1938

TO Secretary Morgenthau

FROM A. Lochhead

TOTAL GOLD PURCHASES OF THE FUND DURING THE MONTH OF SEPTEMBER, 1938

London

Purchased against sale of dollars	\$191,000,000
Purchased against sterling acquired in New York	54,400,000
	<u>\$245,400,000</u>

Holland

Purchased against sales of dollars	<u>\$ 21,600,000</u>
Total purchases abroad	\$267,000,000

New York

Purchased from <u>France</u> to provide dollars..	\$ 4,900,000
Purchased from <u>Holland</u> " " "	30,400,000
Purchased from <u>Switzerland</u> " "	<u>5,600,000</u>
Total purchased in New York	\$ 40,900,000

TOTAL PURCHASES	\$307,900,000
-----------------	---------------

RAW

PLAIN

London

Dated October 4, 1938.

Rec'd 3:20 p.m.

Secretary of State,
Washington.

1123, October 4, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The city's mood of appraisal referred to in paragraph two of 1119 October 3, 6 p.m., continued today and the imminence of a possible monetary crisis in France has also had a sobering effect. The thought is current that if France cannot set its house in order by its own efforts Great Britain may again have to arrange for some form of credit. Furthermore the city is receiving telephone inquiries from the continent regarding sterling and for the moment the belief appears to be growing that the pound is not yet a buy; many of those who moved their balances to New York as a form of insurance seem prepared to stay out for the moment.

In these circumstances British security markets have been somewhat weak today and the dollar has on balance been in considerable demand. Incidentally dealers report considerable number of small orders for dollars. The dollar opened at 4.78 3/4 bid and immediately moved to 3/8 at which point

-2- 1123, October 4, 6 p.m., from London.

point a large amount of business was done with the British authorities giving the dollar freely. The rate was held at that point until the afternoon when the demand dried up and the dollar came on offer. The rate moved to 4.79 1/4. The Bank of England had to absorb some of the 340 bars offered at gold fixing at 145s 3 1/2d.

Although the franc has been held in Paris at around 178.94, the London rate has fluctuated around 179 1/8 since none of the French banks is arbitraging with London. The three-months' franc is quoted in a nominal market at 8 5/8 discount. The city is inclined to believe that Daladier will get financial powers or else force an election.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 4, 1938, 5 p.m.

NO.: 527

No. 17 FOR TREASURY FROM HEATH.

The Reichsbank statement for September 30 issued yesterday showing a 14% increase in currency circulation and a ^{23%} ~~12%~~ increase in Reichsbank credits during the last month is a chief topic of discussion in financial circles here. The total currency in circulation on September 30 stood at 10,154 million reichsmarks as against 8,935 million reichsmarks at the end of August and 7,265 million reichsmarks a year ago. The bill portfolio during September increased by 1,626 million reichsmarks to a total of 8,173 million reichsmarks. On September 30, 1937 the bill holdings were 5,538 million reichsmarks.

A serious inflation of currency and credit is undoubtedly represented by this increase. The huge military preparations during September are the main cause. This obvious and major cause is, it is amusing to note, not even mentioned in official explanations of the increase in credits and monetary circulation. Other reasons are given for the increase, such as the need of German business for funds to meet payments for the end of the quarter, the fact that the end of September, last Friday, was a pay day, and

the

- 2 -

the fact that preparations for floating the new Reich loan are being made by the banks.

An interesting thing to note is that in the Ministry of Economics' September issue of the four year plan, it is admitted that during September a much greater volume of treasury delivery certificates were issued than had been the plan.

WILSON.

RECEIVED
FBI
JUL 12 1950
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 4, 1938, 8 p.m.

NO.: 1689

FROM COCHRAN.

Today it was announced, after a meeting of the Council of Ministers, that ^{unanimous} decision had been reached by the Government to ask Parliament for sufficient power to permit the achievement of immediate improvement of the financial and economic situation of France, which action was made necessary by the exceptional circumstances just experienced by the country. An evidently inspired comment appears in the press to the effect that such full powers should not be used for further devaluation of the franc nor for imposing exchange control. The report in the press anticipates mainly the issue of a loan with exchange guarantee, and various measures of an economic and financial kind.

Request was made of the Chamber's Financial Committee to meet just after the Government delivered its message to Parliament in order to consider the financial proposal with a view to its being debated in the session tonight.

At a quarter of six this evening I telephoned the Ministry of Finance, and found that Rueff was attending the parliamentary debate; however, I talked with Couve de

Murville

- 2 -

Murville who stated that should Parliament grant the special powers the Government did not intend to impose exchange control, nor further devalue the franc, nor revalue the Bank of France's gold stocks nor float a loan with an exchange guarantee.

At six o'clock this evening I talked with my friend at the Bank of France. He said that neither he nor the Bank's Governor knows the intention of the Minister of Finance in case the Minister is granted special powers. He told me that even Rueff late this afternoon did not know. Marchandeau, it appears, has been making his plans without the usual consultations with his technical advisors.

Another bad day was experienced by the French control. In order to hold the rate within 179 it yielded approximately 5,000,000 pounds. The rates for forward discounts against sterling reached 5 and 9 francs for one and three months respectively, but these rates are little more than nominal since there were not many transactions. For the day the British control was about even.

END MESSAGE.

BULLITT.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
FROM A. Lochhead

DATE: October 5, 1938

Close OCT. 4, 1938

GOLD HELD IN LONDON
\$43,600,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Oct. 7	American Farmer	\$10,000,000
Oct. 14	President Harding	15,000,000
	Total	\$25,000,000

FD:ek

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 5, 1938, noon

NO.: 1693

FROM COCHRAN.

This morning at half-past five the Chamber voted the full financial and economic powers which the Government asked for. November 15 next was the expiration date fixed for these powers. At nine o'clock this morning the Senate held a meeting to vote on the bill and is still in session at the present time.

Daladier told the Chamber, in explaining the spirit in which the Government proposes to use the powers requested, that the Government's financial calculations had been upset by the political crisis.

END SECTION ONE.

BULLITT.

EA:LWW

63114021

NOV 11 1938

RECEIVED
OCT 11 1938
U.S. DEPT. OF STATE

Section two of telegram No. 1893, October 5, noon, from Paris.

The Government would have been in a position to keep all of the financial undertakings which it had made before Parliament, if the crisis had not arisen. Daladier reminded the Chamber that he had kept his promise to maintain the rate of the franc within 179 to the pound and announced that since Parliament had recessed for the summer more than 19,000,000,000 francs had been repatriated. Since demobilization had not yet been carried out, he was not able to enter into details as to how much money the Government would need. The Premier assured the deputies that there would be no exchange control; his conviction was that two different exchange rates would mean the ruination of the French industry. Also, there would be no forced conversion of rentes. However, Daladier let it be understood that the social reforms would have to be made "self-supporting" and that revaluation of the gold reserves may be undertaken.

Section three.

The efforts made to restore the finances of France up to the present time were traced by Minister of Finance Marchandeau. He said that all bills had been met and that the volume of ordinary treasury bonds had increased from eleven to nineteen billion francs. The situation was normal at the beginning of September and it had been

unnecessary

-2-

unnecessary to touch the advance account at the Bank of France. International developments had upset the situation, however. The alleged statement that the advance account at the bank had been overdrawn was untrue. On the other hand it was true that, due to the uncertainty of the international situation, the bank had placed at the disposal of the Government an instalment on account of advances which the bank would have granted in case of general mobilization, but this account was not touched by the Government.

END OF SECTION THREE.

EA:DJW

RECEIVED
JAN 11 1951
TREASURY DEPARTMENT
WASHINGTON, D.C.

Section four of telegram No. 1693, October 5, noon, from Paris.

The situation was that, of the 11,950 millions which were available when the government took office, 10,490 millions had been withdrawn from the advance account by the Treasury; leaving 1,460 millions still in the account. The Minister went on to say that the international crisis had led to important withdrawals from banks and from savings accounts and had caused a halt in subscriptions to ordinary treasury bonds. Nevertheless, the Government had refused to consider a moratorium. From September 10 Treasury payments suddenly increased. The Treasury had to find 12,800 millions instead of having to pay out 4,275 millions normally expected for September.

Section
five.

In conclusion Marchandean stressed the point that provision must be made to meet the situation but not measures of facility which would once more compromise the currency which still lacked stability and strength. Any methods adopted must make budgetary balance possible and guarantee the future. The above is based on press reports.

This morning the Paris exchange market has been inactive with operators disposed to await final action of and some more definite indication as to what government would do with its special powers. END OF MESSAGE.

BULLITT

EA:DJW

27

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 4, 1938

TO Secretary Morgenthau

FROM Mr. Oliphant

Re: Control of Prices in the Event of War.

At the request of James W. Morris, Assistant Attorney General, I sent Cox of my shop to attend a conference yesterday afternoon on the control of prices in the event of war. Cox reports the conference as follows:

TIME AND PLACE OF CONFERENCE: October 3, 1938 from 3 to 6:15 P.M. at the office of James W. Morris, Assistant Attorney General, in Room 4141 of the Justice Building.

PRESENT AT THE CONFERENCE: Procurement: Admiral C. J. Peoples; Justice: Assistant Attorney General James W. Morris, Assistant Solicitor General Golden W. Bell, and Special Assistant to the Attorney General Alexander Holtzoff; Agriculture: Paul H. Appleby, Assistant to the Secretary, and Mordecai Ezekiel, Economic Adviser; Commerce: Guerra Everett, Chief of Division of Commercial Laws, and Joseph Meehan, Chief, Division of Business Review; and myself (O. S. Cox, Assistant to the General Counsel, Treasury Department).

GENERAL SUBJECT OF CONFERENCE: Control of Commodity Prices by the Federal Government During Wars Not Involving the United States as a Belligerent.

BRIEF SUMMARY OF CONFERENCE:

I sat merely as an observer.

All of the conferees agreed only on one point: To go ahead with their work even though the Munich agreement had removed the immediate possibility of war.

The others expressed their views as follows:

ADMIRAL PEOPLES. He submitted a memorandum and orally amplified his views as follows:

- (1) The central idea of his plan to control prices is by means of voluntary cooperation between business and the Government.
- (2) To execute this idea of voluntary cooperation, Admiral Peoples suggested the setting up by Executive Order of a "Central Price Control Authority" to be organized and to function as follows:
 - (a) The Chairman of the Central Price Control Authority is to be "a representative of industry—one who understands business thoroughly, but who has no political ambitions, whose background is broad, and who has no direct affiliation with any particular industry". Admiral Peoples orally amplified this thought by stating that he had in mind someone like Bernard Baruch for the position of Chairman of the Central Price Control Authority.
 - (b) The Price Control Authority was also to have a representative for public services and representatives of the AAA, the Bituminous Coal Commission, the State Department and the Treasury.
 - (c) The Authority is also to have a representative of Labor - "one who commands the respect of labor, industry, the Government and the public at large."
- (3) To assist the Central Price Control Committee, Admiral Peoples contemplated the setting up of Commodity Committees.
 - (a) Admiral Peoples advises "that these Commodity Committees would parallel in organization, and work in close cooperation with, the existing trade associations of industry, who represent member firms and through whom the voluntary cooperation of individual firms can best be obtained."
- (4) In the event that the United States were drawn into war, it was Admiral Peoples view that "the mechanism set up would be readily adaptable for conversion to a wartime Price Control agency. For example, the Trade associations could be used as the war service committees now projected in the Industrial Mobiliza-

tion plan; the Commodity Committees could be employed in identical capacities as a part of the projected War Resources Administration; * * * " etc.

- (5) When the representatives of Commerce and Agriculture strongly objected to the voluntary cooperation plan on the double ground that the Chairman of the Central Price Control Committee should not be a non-governmental representative and that business could not reduce prices voluntarily when they saw a chance to make more money by higher prices in a time of increased demand, Admiral Peoples' answer was (a) During the last war the voluntary cooperation method had served a useful purpose in keeping prices down before we entered the war; and (b) Coupled with the voluntary cooperation the Federal Government would be able to subject business to indirect methods of price control such as publicity, extension of its credit facilities, etc.
- (6) In connection with the Commerce Department's proposal for the establishment of central purchasing agencies for belligerent powers with authority to establish and modify quotas, Admiral Peoples expressed the view that (a) Government agencies should not be used to participate in such central purchasing agencies, and (b) the Government should be completely impartial and not give assistance to the democracies that it would not give to the dictatorships.
- (7) On the Commerce Department's proposal to accelerate, in time of low prices, the procurement program of the Government, in order to forestall the effect of adding, during the emergency period, a new impetus to the general price level, Admiral Peoples was of the opinion that this could not be done unless the Procurement Division had a revolving fund and could make commitments which would run across fiscal years. He pointed out that in the absence of additional legislation the Procurement Division could not make commitments which ran across fiscal years.

- 4 -

- (8) At the conclusion of the conference, Assistant Attorney General Morris suggested that he as a lawyer was not qualified to attempt to integrate the views of the different members of the Committee as he had previously done after their first conferences. Admiral Peoples volunteered and said that he would prepare a memorandum embodying the different views of the various Committee members.

MEEHAN and EVERETT (of Commerce). These two Commerce representatives were of the opinion that nothing effective could be done to control prices in the event of war without additional enabling legislation. They suggested the four following fields for legislative action:

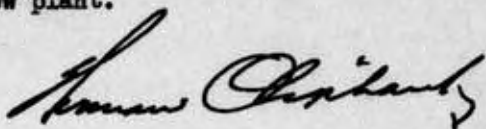
- (1) The establishment of central purchasing agencies for belligerent powers with authority to establish and modify quotas.
- (2) Legislation to permit allocation of shipping space in vessels under Federal subsidy.
- (3) Establishment of a system of export licenses.
- (4) Acceleration, in time of low prices, of the procurement program of the Government.

EZEKIEL and APPLEBY (of Agriculture). Briefly summarized, they suggested the following methods for controlling prices in the event of war:

- (1) The use of a government-owned or controlled reserve supply to be released to the market in times of advancing prices.
- (2) Pooling orders through a single U. S. government agency to act as broker.
- (3) Classification of prices under Neutrality Act.
- (4) The use of consolidated buying power of Federal government for normal and emergency operations.
- (5) The use of control over rolling-stock and other transport facilities.
- (6) Control or regulation of price increases, by yardstick plants.

- 5 -

- (7) Prevent price increases through control over principal investment channels in the allocation of capital for new plant.

A handwritten signature in cursive script, appearing to read "Herman Chittenden".

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 4, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

I attended a conference this morning which Leon Henderson called at his office in the Federal Trade Commission Building.

It seems that after the President had asked various people to work on war-time control of American prices and the American economy he saw Henderson with Harry Hopkins present. Henderson told the President that he had sufficient powers, and that the only questions he had to decide were whether he wanted to use them and, if so, whether he would run the thing himself by using his own people now in the Government or would turn it over to the people in the business world who have seen the President about it or whose names have been mentioned to him. The President said he proposed to run it himself, and wanted to use his own people. He turned over to Henderson all the reports and memoranda which he had had from various sources, and Henderson is engaged in working out a program for use in the event of an emergency.

At the conference this morning were Harry Hopkins, Bob Jackson, Ben Cohen and Bill Douglas. Hopkins stayed only a short time, spending most of it talking politics. After he left, the time was consumed by Henderson telling the group all that had happened up to date.

There was general agreement that if the job had to be done, it should be done by the Government's own personnel, expert and otherwise. As the matter now rests, it is in Henderson's hands for further and more deliberate study.

H

Paris, October 4, 1938.

102-A

Dear Mr. Secretary:

With reference to my letter dated September 16, 1938, with which I enclosed a translation of a memorandum prepared by Baumgartner upon the Crédit National, I now have pleasure in attaching a translation of a note submitted by Rueff with respect to the "Popular Banks".

With very kindest regards, I am,

Faithfully yours,


H. Merle Cochran
First Secretary of Embassy

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

Enclosure:

1. Note on "Popular Banks".

In triplicate.

HMC/ams

Regraded Unclassified

TRANSLATION

MEMORANDUM

102-B

ON THE ORGANIZATION OF "POPULAR CREDIT IN FRANCE".

The Popular Banks created by the law of March 13, 1917 (private organizations enjoying "financial encouragement" of the State), are limited companies of variable capital (law of July 24, 1867, relating to companies) which carry out ordinary banking operations (opening of current accounts and of short term advance accounts, and discount of commercial paper, etc) but they only deal with business people, manufacturers, and artisans in the exercise of their profession. They may receive deposits of funds from non-commercial persons, but overdrafts are not permitted. Furthermore, at the request of clients, these banks carry out orders to buy, sell securities and other current banking operations.

The Popular Banks, which number about sixty and exercise their activity on French territory by districts, were grouped by the law of July 24, 1929, into a Syndical Committee. The latter exercises administrative, technical and financial supervision over its members; and a Government Commissioner has been attached to this central organization.

It should be noted that, if the liberty of each

bank is limited by the supervision of the Syndical Committee, this does not mean that there is solidarity between all the institutions and there can be no question of purely and simply compensating losses of one by the profits of the others.

A Central Credit Board has been established with the Syndical Committee to the prior approval of which are submitted the opening of credits exceeding a certain figure which the affiliated banks contemplate.

Furthermore, a special organization, the "Central Fund of the Popular Banks", operates side by side with the Syndical Committee. This Central Fund is itself constituted as a Popular Bank, and in addition it acts as a "clearing" for the purpose of centralizing all the commercial paper of the affiliated banks, and distributing this paper between the collecting offices. This Fund also fills the roll of executive agent of the Syndical Committee, notably for the disposal of treasury surpluses which the affiliated banks must pay over to the central organization, and to the granting to these banks of discount credit and treasury facilities.

The tutelage of the Syndical Committee, which was at first rather limited, was strengthened by the laws of March 17, 1934, and August 13, 1936, through a series of measures such as a ratification of nominations of administrators and of directors, the interdiction

to grant overdrafts to administrators without the agreement of the Central Credit Council, and the constitution of a guaranty collective fund.

The normal resources of each Popular Bank comprises its capital and the funds deposited by its clients, either at sight, or fixed deposits.

According to its requirements, and subject to reimbursement, each bank may dispose of a part of the resources which for the ensemble of the Popular Credit, are at the disposal of the Syndical Committee. These resources are derived, in addition to the aid which may be accorded in virtue of special laws, from a common fund of the institution, primarily constituted by periodic advances granted by the State from a part of the royalties of the Bank of France and continuing to be provided for by yearly payments (and reimbursements) of affiliated banks.

* * *

After a period of about twenty years of application of the law organizing Popular Credit in France, and in spite of the difficulties which this new undertaking naturally encountered, the important position taken in the country by the Popular Banks is evident, especially when account is taken of the fact that during the same period economic circumstances led to

the . . .

the disappearance of a large number of local and regional banks which traditionally had been at the service of small and medium traders, and manufacturers.

The organization would have obtained more favorable results if the development of Mutual Guaranty Companies, instituted by the same law of March 13, 1917, and which constituted the initial group of the Popular Credit, had not up to now frequently run counter to the individualistic tendencies of the small French trader and manufacturer.

Nevertheless, if the question of short term credit has been settled, at least partially, for the small and medium enterprises, by the creation of Popular Banks, the question of long term and medium term credit to such concerns remains entirely open.

It was only at the beginning of 1938 that a Paris Popular Bank, already specialized in hotel credit operations, and henceforth known as Central Fund of Hotel, Commercial and Industrial Credit ("Caisse Centrale de Crédit Hôtelier, Commercial et Industriel") received an endowment from the State permitting it to undertake a prudent and judicious distribution of medium term credit by the granting, under appropriate guaranties, of advances not exceeding 150,000 francs each, for a duration of ten years maximum.

The Popular Banks, furthermore, under the supervision of their Syndical Committee, have undertaken

102 F

the reception and the preliminary examination of demands for such advances. This new system has only just commenced to operate.

102-F

In conclusion it is recalled that with respect to operations in excess of 150,000 francs, longer term credit could already be granted to commercial and industrial enterprises, and continues to be by another establishment, namely the Crédit National the attributions of which, however, are distinct from the Popular Credit.

September 10, 1938.

Paris, October 4, 1938.

Dear Mr. Secretary:

With reference to my letter dated September 16, 1938, with which I enclosed a translation of a memorandum prepared by Baumgartner upon the Crédit National, I now have pleasure in attaching a translation of a note submitted by Rueff with respect to the "Popular Banks".

With very kindest regards, I am,

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy

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

Enclosure:

1. Note on "Popular Banks".

In triplicate.

BMC/ams

MEMORANDUMON THE ORGANIZATION OF "POPULAR CREDIT IN FRANCE".

The Popular Banks created by the law of March 13, 1917 (private organizations enjoying "financial encouragement" of the State), are limited companies of variable capital (law of July 24, 1867, relating to companies) which carry out ordinary banking operations (opening of current accounts and of short term advance accounts, and discount of commercial paper, etc) but they only deal with business people, manufacturers, and artisans in the exercise of their profession. They may receive deposits of funds from non-commercial persons, but overdrafts are not permitted. Furthermore, at the request of clients, these banks carry out orders to buy, sell securities and other current banking operations.

The Popular Banks, which number about sixty and exercise their activity on French territory by districts, were grouped by the law of July 24, 1929, into a Syndical Committee. The latter exercises administrative, technical and financial supervision over its members; and a Government Commissioner has been attached to this central organization.

It should be noted that, if the liberty of each

bank . . .

bank is limited by the supervision of the Syndical Committee, this does not mean that there is solidarity between all the institutions and there can be no question of purely and simply compensating losses of one by the profits of the others.

A Central Credit Board has been established with the Syndical Committee to the prior approval of which are submitted the opening of credits exceeding a certain figure which the affiliated banks contemplate.

Furthermore, a special organization, the "Central Fund of the Popular Banks", operates side by side with the Syndical Committee. This Central Fund is itself constituted as a Popular Bank, and in addition it acts as a "clearing" for the purpose of centralizing all the commercial paper of the affiliated banks, and distributing this paper between the collecting offices. This Fund also fills the roll of executive agent of the Syndical Committee, notably for the disposal of treasury surpluses which the affiliated banks must pay over to the central organization, and to the granting to these banks of discount credit and treasury facilities.

The tutelage of the Syndical Committee, which was at first rather limited, was strengthened by the laws of March 17, 1934, and August 15, 1936, through a series of measures such as a ratification of nominations of administrators and of directors, the interdiction

to . . .

to grant overdrafts to administrators without the agreement of the Central Credit Council, and the constitution of a guaranty collective fund.

The normal resources of each Popular Bank comprises its capital and the funds deposited by its clients, either at sight, or fixed deposits.

According to its requirements, and subject to reimbursement, each bank may dispose of a part of the resources which for the ensemble of the Popular Credit, are at the disposal of the Syndical Committee. These resources are derived, in addition to the aid which may be accorded in virtue of special laws, from a common fund of the institution, primarily constituted by periodic advances granted by the State from a part of the royalties of the Bank of France and continuing to be provided for by yearly payments (and reimbursements) of affiliated banks.

* *
.

After a period of about twenty years of application of the law organizing Popular Credit in France, and in spite of the difficulties which this new undertaking naturally encountered, the important position taken in the country by the Popular Banks is evident, especially when account is taken of the fact that during the same period economic circumstances led to

the . . .

the disappearance of a large number of local and regional banks which traditionally had been at the service of small and medium traders, and manufacturers.

The organization would have obtained more favorable results if the development of Mutual Guaranty Companies, instituted by the same law of March 13, 1917, and which constituted the initial group of the Popular Credit, had not up to now frequently run counter to the individualistic tendencies of the small French trader and manufacturer.

Nevertheless, if the question of short term credit has been settled, at least partially, for the small and medium enterprises, by the creation of Popular Banks, the question of long term and medium term credit to such concerns remains entirely open.

It was only at the beginning of 1938 that a Paris Popular Bank, already specialized in hotel credit operations, and henceforth known as Central Fund of Hotel, Commercial and Industrial Credit ("Caisse Centrale de Crédit Hôtelier, Commercial et Industriel") received an endowment from the State permitting it to undertake a prudent and judicious distribution of medium term credit by the granting, under appropriate guarantees, of advances not exceeding 150,000 francs each, for a duration of ten years maximum.

The Popular Banks, furthermore, under the supervision of their syndical Committee, have undertaken

the . . .

the reception and the preliminary examination of demands for such advances. This new system has only just commenced to operate.

In conclusion it is recalled that with respect to operations in excess of 150,000 francs, longer term credit could already be granted to commercial and industrial enterprises, and continues to be by another establishment, namely the Crédit National the attributions of which, however, are distinct from the Popular Credit.

September 10, 1938.

HMC/AG/ams

Paris, October 4, 1938.

Dear Mr. Secretary:

With reference to my letter dated September 16, 1938, with which I enclosed a translation of a memorandum prepared by Baumgartner upon the Crédit National, I now have pleasure in attaching a translation of a note submitted by Rueff with respect to the "Popular Banks".

With very kindest regards, I am,

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy

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

Enclosure:

1. Note on "Popular Banks".

In triplicate.

HMC/ams

MEMORANDUMON THE ORGANIZATION OF "POPULAR CREDIT IN FRANCE".

The Popular Banks created by the law of March 13, 1917 (private organizations enjoying "financial encouragement" of the State), are limited companies of variable capital (law of July 24, 1867, relating to companies) which carry out ordinary banking operations (opening of current accounts and of short term advance accounts, and discount of commercial paper, etc) but they only deal with business people, manufacturers, and artisans in the exercise of their profession. They may receive deposits of funds from non-commercial persons, but overdrafts are not permitted. Furthermore, at the request of clients, these banks carry out orders to buy, sell securities and other current banking operations.

The Popular Banks, which number about sixty and exercise their activity on French territory by districts, were grouped by the law of July 24, 1929, into a Syndical Committee. The latter exercises administrative, technical and financial supervision over its members; and a Government Commissioner has been attached to this central organization.

It should be noted that, if the liberty of each

bank . . .

- 2 -

bank is limited by the supervision of the Syndical Committee, this does not mean that there is solidarity between all the institutions and there can be no question of purely and simply compensating losses of one by the profits of the others.

A Central Credit Board has been established with the Syndical Committee to the prior approval of which are submitted the opening of credits exceeding a certain figure which the affiliated banks contemplate.

Furthermore, a special organization, the "Central Fund of the Popular Banks", operates side by side with the Syndical Committee. This Central Fund is itself constituted as a Popular Bank, and in addition it acts as a "clearing" for the purpose of centralizing all the commercial paper of the affiliated banks, and distributing this paper between the collecting offices. This Fund also fills the roll of executive agent of the Syndical Committee, notably for the disposal of treasury surpluses which the affiliated banks must pay over to the central organization, and to the granting to these banks of discount credit and treasury facilities.

The tutelage of the Syndical Committee, which was at first rather limited, was strengthened by the laws of March 17, 1934, and August 12, 1936, through a series of measures such as a ratification of nominations of administrators and of directors, the interdiction

to . . .

to grant overdrafts to administrators without the agreement of the Central Credit Council, and the constitution of a guaranty collective fund.

The normal resources of each Popular Bank comprises its capital and the funds deposited by its clients, either at sight, or fixed deposits.

According to its requirements, and subject to reimbursement, each bank may dispose of a part of the resources which for the ensemble of the Popular Credit, are at the disposal of the Syndical Committee. These resources are derived, in addition to the aid which may be accorded in virtue of special laws, from a common fund of the institution, primarily constituted by periodic advances granted by the State from a part of the royalties of the Bank of France and continuing to be provided for by yearly payments (and reimbursements) of affiliated banks.

. . .
.

After a period of about twenty years of application of the law organizing Popular Credit in France, and in spite of the difficulties which this new undertaking naturally encountered, the important position taken in the country by the Popular Banks is evident, especially when account is taken of the fact that during the same period economic circumstances led to

the . . .

the disappearance of a large number of local and regional banks which traditionally had been at the service of small and medium traders, and manufacturers.

The organization would have obtained more favorable results if the development of Mutual Guaranty Companies, instituted by the same law of March 13, 1917, and which constituted the initial group of the Popular Credit, had not up to now frequently run counter to the individualistic tendencies of the small French trader and manufacturer.

Nevertheless, if the question of short term credit has been settled, at least partially, for the small and medium enterprises, by the creation of Popular Banks, the question of long term and medium term credit to such concerns remains entirely open.

It was only at the beginning of 1939 that a Paris Popular Bank, already specialized in hotel credit operations, and henceforth known as Central Fund of Hotel, Commercial and Industrial Credit ("Caisse Centrale de Crédit Hôtelier, Commercial et Industriel") received an endowment from the State permitting it to undertake a prudent and judicious distribution of medium term credit by the granting, under appropriate guarantees, of advances not exceeding 150,000 francs each, for a duration of ten years maximum.

The Popular Banks, furthermore, under the supervision of their syndical Committee, have undertaken

102R

- 5 -

the reception and the preliminary examination of demands for such advances. This new system has only just commenced to operate.

In conclusion it is recalled that with respect to operations in excess of 150,000 francs, longer term credit could already be granted to commercial and industrial enterprises, and continues to be by another establishment, namely the Crédit National the attributions of which, however, are distinct from the Popular Credit.

September 10, 1938.

RAW

PLAIN

Hong Kong via N.R.

Dated October 5, 1938.

Rec'd 8 a.m., 7th.

Secretary of State,
Washington.

October 5.

FOR DEPARTMENT OF COMMERCE.

Sales representatives of Kwangsi Government had no stock of tung oil on September 30, 1938. Present local price per 133 - 1/3 pounds packed in drums is hk 47 point 25 to 48 or United States 14 point 06 to 14 point 28 United States. Conversions into United States dollars made at the current rate of exchange of United States 0 point 2975 to one Hong Kong dollar.

Dealers estimate total present stock in Hong Kong from 1200 to 2000 tons. About 500 tons are expected to arrive from Hankow during the next ten days. Sellers are holding off in expectation of higher prices.

RR

SOUTHARD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 5, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Meeting in Mr. Haas' office, Wednesday, Oct. 5, 1938,
3:30 P. M.

Present: Jesse Tapp, President, Federal Surplus Commodities Corp.
F. R. Wilcox, Vice-President, Federal Surplus Commodities Corp.
Chinese Delegation:
Mr. Chen
Mr. Ren
Mr. Te-Mou
Mr. Haas

This meeting was called at Mr. Tapp's request, to discuss with the Chinese delegation the possibility of exchanging wheat or wheat flour for some products of China, preferably those that might be used to build up reserves in the United States of strategic materials.

Mr. Tapp explained to the Chinese delegation the barter arrangement outlined above, indicating that he was exploring the possibilities of an arrangement that might be made with China. Several commodities which are available in China were mentioned, such as tungsten, antimony, wood oil, and tin. The Chinese also mentioned tea and silk.

Mr. Chen informed Mr. Tapp that a proposition with regard to wood oil was already in the hands of the Treasury, and that he was securing information with regard to the other commodities and expected to have a report on them in a short time.

The meeting closed with the understanding that another meeting would be arranged as soon as the Chinese group received more detailed information with regard to the commodities under discussion.

- - - - -

After the meeting, Mr. Tapp told me that Secretary Wallace, upon his return, was much disturbed about the proposal to sell 70 million bushels of wheat to China on credit. He said that the more Secretary Wallace thought about it the less he liked the proposal.

Secretary Morgenthau -2-

I asked Mr. Tapp what feature seemed to disturb Secretary Wallace most. Mr. Tapp said he thought it was the reaction which would come from Australia, Argentine, and Canada if the wheat were sold in this manner.

Mr. Tapp also told me that Mr. Bryant, one of the reporters for the Wall Street Journal, said he heard a rumor that the United States was going to loan money to China to buy wheat, and asked Mr. Tapp for his comment. Mr. Tapp said he replied that there was nothing to it. He asked Mr. Bryant the source of the rumor, and he said it was a rumor he had heard "around the State Department". Mr. Tapp said Mr. Bryant was no more definite than that.

Mr. Tapp said he was quite concerned about any publicity being given any such rumor because of the effect he felt it would undoubtedly have on the world wheat market.

KEY PITTMAN, NEW., CHAIRMAN
 WYATT HARRISON, MISS.
 WALTER F. GEORGE, GA.
 HERBERT F. WASSER, N. Y.
 J. DONNELLY, TEX.
 AMULTON LEWIS, ILL.
 J. BERT D. THOMAS, UTAH
 FREDERICK VAN RUTS, IND.
 F. RYAN DUFFY, WIS.
 JAMES F. POPE, IDAHO
 JAMES E. MURRAY, MONT.
 GEORGE CHAVEZ, N. MEX.
 LEWIS E. SCHWELLENBACH, WASH.
 CLAUDE PEPPER, FLA.
 THEODORE F. BROWN, R. I.
 ALBION W. BARKLEY, KY.
 HENRIK SHIPSTEAD, MINN.

WILLIAM E. BOWAN, IDAHO
 HIRSH W. JOHNSON, CALIF.
 ARTHUR CAPPER, KANS.
 ROBERT M. LA FOLLETTE, JR., WIS.
 ARTHUR H. VANDERBERG, MICH.
 WALLACE H. WHITE, JR., MAINE

United States Senate

COMMITTEE ON FOREIGN RELATIONS

Elko, Nevada,
 October 5, 1938.

EDWARD J. TRENWITH, CLERK
 JAMES A. WHITE, ASST. CLERK

PERSONAL AND CONFIDENTIAL

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

Dear Henry:

I received a wire from Mr. White of my office conveying the message that you would like if I could be in Washington during the next week to discuss Chinese matters. I wired you today through Mr. White that owing to important official engagements here in Nevada I would be unable to leave here soon.

I presume that you wish to lay before me certain plans with regard to further purchases of silver from China. I am very much in favor of aiding China in every legal way that we can. I know of no way in which this can be accomplished except through the purchase of silver. Our Government may have moral obligations to its own citizens with regard to silver that are superior to our desire to aid the Chinese.

I have in mind not only the protection of the mining industry but the exporters of the United States, particularly the exporters of cotton and wheat. I discussed in the press recently a possible plan as a possible substitute for the present plan for the relief of both cotton and wheat farmers. I directed my secretary to send you a copy of this article. If he has not done so, I hope that you will request him for a copy.

It has always seemed to me to be unjust that our Government should make large seigniorage profits out of the producers of silver. Call it by any name that you see fit, it is in the long run an extortionate tax. It is absurd for the Government to make a profit out of the coinage of either silver or gold. The Government does not attempt to make a profit out of converting gold into money. It should not attempt to make a profit out of converting silver into the same kind of legal tender money. I have argued this matter for years but have received no sympathy from the Presidents or the Treasury Departments under the various Administrations because they have treated gold as money and silver as a commodity. Both are commodities and remain commodities until they are converted into money. Under our existing law when each metal is converted into money it is legal tender money, of equal value as money.

Hon. Henry Morgenthau, Jr.

- 2 -

October 5, 1938.

In the article I speak of, I have demonstrated, I believe, to the cotton and wheat producers that foreign importers of cotton could buy our cotton if we received their silver at the same value at which we pay our Government debts when coined into money. I have also attempted to demonstrate that the Government would lose less money through such a program than through the present absurd plan. And more than this, the present plan is destroying our foreign market and must soon prove an utter failure. This is but a starter of the evidence that I intend to produce bearing not only on these commercial questions, but upon our monetary system.

Now, if we desire to help China and to effectively help China, then we should give China our parity price for silver. In such event our Government would lose a large profit in the form of seigniorage upon the purchase of such silver. Our Government would lose as much, however, through such action as it would lose in many ways if Japan should ultimately conquer the whole of China. Personally if it were legal and not unneutral, I would be willing to loan China sufficient money to win the war. That, of course, is impossible. If it is not the purpose of our Government to effectively aid China in defeating the Japanese, then we should not buy any silver from them at all.

There are plenty of uses under the Silver Purchase Act that will be of benefit to this Government and we should use it only for benefit of the Government. When I say "Government" I do not mean the Departments; I mean the people of the country. I would be glad if the President would purchase 200,000,000 ounces of silver from the Chinese at \$1.29 an ounce, the Chinese to be given credit in the United States for such purchase price. I would like to see, of course, the Chinese, if possible, purchase American products with such credit. There would be no loss to the people of this country in that event even though China were ultimately conquered. It might be called, and erroneously called, the granting of a bonus to our exporters. Even this form of purchase might possibly relieve both the producers and the Government from the disastrous effect of the present agricultural policy.

It is inevitable, of course, that if we accept silver in purchase of our exports at the parity price of \$1.29 an ounce, we must also accept the American production at the same price. I contended while the President had under consideration the question whether he would issue another proclamation for the purchase of American produced silver that if we did not make such purchases American production would be thrown upon the market of the world and the price would be beaten down to 25¢ an ounce. I am more convinced than ever that such would be the result. I also contended at the time that reducing the price of American produced silver would result in a reduction in the production of all metals with which silver is associated in the ores and cause increased unemployment. The results have proven that my latter contention was true.

Hon. Henry Morgenthau, Jr.

- 3 -

October 3, 1938.

The Government by such reduction has made a profit in the form of seigniorage of possibly \$8,000,000. It has lost many times that in the loss of other forms of taxation and in the payment for increased relief demands.

Congress will be besieged by demands for inflation by the issuance of fiat money. It is possible that a slight inflation of our currency through silver certificates and through the use of the Silver Act to facilitate exports and eliminate bonuses for the reduction of acreage and loans above export prices may overcome the demand for inflation by the issuance of fiat money. Silver will at least at all times have some intrinsic value even as a commodity. In fact, India and China whenever they are able will continue to buy silver. While China will never again go back on the silver standard, it will always continue to use silver for monetary purposes. In fact, under the monetary program that you agreed upon with China, China had commenced to use more silver in its currency and would have continued to do so except for the Japanese invasion.

Of course, I will cancel all engagements if you feel that my return to Washington will be of material aid to you. In the meantime, if you see fit you can write me in perfect confidence by enclosing a letter marked "Personal and Confidential" in an envelope which is enclosed in another envelope which is addressed to me in care of your Collector of Internal Revenue at Reno, Nevada, Mr. Robert L. Douglass. That letter would not be opened but would be delivered to me in person whenever I arrived in Reno. No one will know of this letter except my confidential secretary who is with me and he will never violate my confidence.

With best wishes, I am,

Sincerely,



FS

PLAIN

London

Dated October 5, 1938

Rec'd 4 p.m.

Secretary of State,
Washington.

1128, October 5, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

It may be well at this point to take stock of the
British outlook.

The usual business indices for September when they are all available will be too distorted by the crisis to serve as clear pointers. It seems more useful therefore to study the trend over a longer period taking into account the various indices up to the end of August and to endeavor to assess the effects of the new conditions arising out of the crisis. Although it is too soon to predict the concrete results of the crisis and its settlement in terms of business there is one certainty, namely, an acceleration of arms expenditure. In his statement in the House of Commons on October 3 Chamberlain said: "While we must renew our determination to fill up the deficiencies that yet remain in our armaments and in our defensive precautions so that we may be ready to defend ourselves and make our diplomacy effective (***) I do see fresh opportunities of approaching
this

FS 2-No. 1128, October 5, 5 p.m. from London

this subject of disarmament opening up before us and I believe that they are at least as hopeful today as they have been at any previous time". This statement does point to a possible eventual limitation of the arms race but in effect it means that there will be a considerable period of uncertainty and a prolongation of the necessity for a wait-and-see policy which will tend to prevent business expansion.

As the FINANCIAL NEWS states today: "Little impetus to the level of business activity may be expected from private initiative and the effect of Government spending on a large scale may not develop very rapidly. For the next six months in fact there appears to be little prospect of any considerable advance in the level of business activity".

At the end of August there were indications of a pause in the downward trend of business activity. Employment, retail food sales and building activity were holding at about the levels of July and June but these pointers showed no sign of actual improvement and the question was being asked whether they indicated a coming upward turn or merely a temporary pause in the downward trend. Meanwhile there were two major problems, (A) the approaching budget problem and (B) the problem of the export trades. The
budget

HR -3-No. 1128, October 5, 5 p.m. from London

budget problem will be directly affected by armament acceleration, while the export problem will remain of paramount importance since the export trades are of key importance to Great Britain not only as a means of paying for imports which will be more essential and greater in volume with the armament program intensified, but also because the great basic export trades normally employ about 30 per cent of the working population and now contribute over 40 per cent of total unemployment.

The half year's revenue returns show that receipts from forms of taxation which come in steadily during the year have so far fallen considerably short of estimates, and the FINANCIAL NEWS estimates that even if the income-tax and surtax receipts which come in largely during the last quarter reach the estimates of this year's budget there will probably be a short-fall of revenue below estimates of something like £20 million to £25 million. Meanwhile expenditure was some £50 million more for the half year while the estimate for the full year is for an increase of £24 million (exclusive of expenditure of borrowed funds). Though the gap may be filled before the end of the financial year by manipulating postponements of payments and acceleration of tax collections, in the absence of a genuine trade recovery the budget problem as it

approaches

HR -4-No. 1128, October 5, 5 p.m. from London

approaches in the new year will assume growing importance and the old question will arise as to how much of current expenditure should be met by borrowing. If a general election is held there will probably be a tendency to hold borrowing within fairly confined limits but if there is no trade revival pressure for public works expenditure and other forms of relief of unemployment may have a compelling force.

The export trades are admittedly suffering from curtailed demand for British goods in the principal markets of the world as well as from the Far Eastern conflict and trade restrictions. But as in the slump of 1930 and 1931 British export prices remain high and costs have shown little reduction. The cost of living remains even now higher than a year ago in spite of the decline in primary foodstuff prices while wage rates show no sign of being reduced. The wage cost is however not the only cost and it is my opinion that British industry is suffering from a malady unrecognized here but in reality as fundamental as the malady which afflicts France as a result of the 40 hour week and other social legislation. The basic British export industries have all endeavored to solve their perplexing post-war maladjustments of over-capitalization and over-capacity

REB

5-#1128, From London, Oct. 5, 5 p.m.

over-capacity by means of production control and price fixing schemes and though these methods have proved fairly successful from the shareholders immediate point of view, in the case of the individual industries the repercussions of such a policy when applied to basic materials such as coal and steel are manifest. While the prices of primary products supplied by Britain's best export customers have declined since the peak of early 1937 by some 30 percent, the Board of Trade price index of British coal has declined by less than 6 percent and the price index for iron and steel is actually higher than in the third quarter of 1937. Not only do the price policies of the coal and steel industries affect the costs of nearly every manufacturing and constructional trade but these trades again are in many cases organized along similar lines with price rings designed to furnish a profit to the least efficient firm and to curtail production and prevent price cutting.

A British merchant banker who has recently toured some of the industrial districts of Great Britain and talked extensively with bank managers and others in close touch with industrial conditions has expressed the view that most

British

REB

6-#1128, From London, Oct. 5, 5p.m.

British industrialists have let slip the opportunities afforded by the tariff and currency depreciation of 1931 for rendering themselves powerful as competitors in world markets. Instead of "manufacturing to a price" they have contented themselves with making what they could out of the new protected home market and by now the windfall advantage gained from depreciation has been completely lost and the high hopes of the election speeches of 1931, in which emphasis was laid on the need for tariffs to make British industry able to compete in foreign markets, have vanished. Such relief to the export trades as will eventually come from the improvement in the purchasing power of important British markets which will result from a real improvement in the United States of America is not likely to be quick in any case, because it will be largely indirect, and it will be still further delayed by the factors that are becoming increasingly apparent which make for high costs in British industry. That sterling is overvalued is likely to be alleged so long as British costs and export prices remain artificially held at levels which can but weaken competitive power in world markets. Even a sharp rise in the price index of primary products giving
increased

REB

7-#1128, From London, Oct. 5, 5p.m.

increased purchasing power in important markets could furnish but a limited cure if British exporters do not adjust their costs and the prices at which they offer their goods so as to compete successfully with producers in other industrial countries where the cost structure is more elastic.

British export trades were faced with the same dilemma in 1931. Depreciation came to the rescue but tariffs were also introduced and British producers have tended to pick the home-market plums and failed in many important instances to take the opportunity to consolidate their new advantage in export markets. Today the costs structure is more rigid than ever because the tariff has fostered the price ring and recourse cannot be had again to depreciation to the same extent. The pound cannot get out of the sterling area, which is so extensive and now includes even France. Furthermore freedom of action in currency matters is virtually ubiquitous.

KENNEDY

HPD

REB

PLAIN

London

Dated October 5, 1938

Rec'd 4:02 p. m.

Secretary of State,
Washington.

1129, October 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The volume of trading in British securities remains small and the attitude of wait-and-see continues.

The dollar opened at 4.80 with the British authorities offering dollars presumably in anticipation of considerable demand. The rate moved to 4.80 3/4 and then on market bidding to 4.79 7/8. At this point it was held by the British authorities until gold fixing. The dollar remained at around 4.79 1/2 until New York opened a seller and shortly thereafter news of Benes' resignation sent it to 4.80 1/2. Exchange dealers again report considerable business in small amounts. The British authorities gave some of the 327 bars at fixing at 144S. 10D. which was parity including the 1S. 3D. war risk rate.

The franc has been under considerable pressure but the forward rates have moved in presumably on official bidding.

It

REB

2-#1129, From London, Oct. 5, 6p.m.

It is taken for granted that the Bank of France's gold supply will be re-valued at a rate to cover the 30 milliards of advances and it is also assumed that exchange control will not be instituted. Aside from these two considerations the city has no definite views or information on possible French developments.

KENNEDY

CSB

03413231

OCT 11 1964

RECEIVED

U.S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 5, 1938, 6 p.m.

NO.: 1700

FROM COCHRAN.

At six o'clock I had a talk with my friend in the Bank of France. After the Senate passed the bill granting the Government full financial powers this afternoon, the Paris exchange market quieted further. The French stabilization fund for the day lost considerable foreign exchange in order to hold the franc; the franc was even improved somewhat for psychological reasons. However, today was not nearly so bad a day as yesterday for the ~~franc~~ fund. It is still not known to my friends at the Bank whether there will be an immediate revaluation of the gold stock, as is surmised on the market.

At a quarter after six I had a talk with Rueff, just after he got back from the Senate meeting. Rueff denied the market rumor that a revaluation of the gold stock will be shown on the statement of the Bank of France tomorrow. He said he did not expect any new measures whatever to be taken the next day or two in the financial field under the new authority of the Government. There may be a disposition to watch developments before taking any new financial measures, since deposits are beginning to come back

- 2 -

back to the banks, and subscriptions to national defense bonds are picking up since Monday.

Unless there is a significant turn in the trend and a repatriation of capital sets in, the stabilization fund will need replenishing after a few days.

END OF MESSAGE.

WILSON.

EA:LWW

RECEIVED
JUN 17 1942
TREASURY DEPARTMENT
WASHINGTON, D. C.
OFFICE OF THE ASSISTANT SECRETARY

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE: October 6, 1938

TO Secretary Morgenthau
FROM A. Lochhead

Close OCT. 5, 1938

GOLD HELD IN LONDON
\$43,600,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Oct. 7	American Farmer	\$10,000,000
Oct. 14	President Harding	15,000,000
	TOTAL	\$25,000,000

FD:ek

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany (Part Air)

DATE: October 8, 1938. Rec'd Oct. 7, 7:55 a.m.

NO.: 531

No. 18. FROM HEATH FOR THE TREASURY.

It is not denied at the Reichsbank that the increase shown in the September 30 statement of the bank - reference, my telegram No. 17 - in monetary circulation and credits was essentially inflationary. However, it was asserted that the bank was assured that the Government would cooperate in bringing back to "normal" the monetary circulation of the country. One point brought out is that the monetary circulation will be importantly reduced by the subscription for the new Reich loan of one thousand five hundred million reichsmarks. In addition, it is stated that tax revenues are much greater than had been forecast. According to unofficial figures for September, the Reich enjoyed revenues of 8.3 billion reichsmarks for the first six months of the fiscal year as compared with 6.8 billion reichsmarks for the same period in 1937. It had originally been forecast that revenues for the current fiscal year would be 16 billion reichsmarks as compared with 14 billion reichsmarks for the period 1937-38. The Ministry of Finance estimates, on the basis of six months actual returns, that

revenues

-2-

revenues for the current fiscal year will be 17.2 billion reichsmarks. (Note: the figures for Austria are not included in these figures).

It was stated at the Reichsbank that the monetary position at the end of July, when circulation stood at 8.7 billion reichsmarks, was about normal for the full employment conditions in old Germany, but stated that there would have to be increase - they thought about 400 or 500 million marks - over that figure to take over Czech currency held by the Sudeten Germans, and some additional emission to match the employment and production in Austria which was still increasing. It is to be noted, with regard to the Reichsbank estimate of additional currency needed for Sudeten territory, that the Czech delegates to the conference here estimate that there are only about two billion Czech crowns in the possession of the Sudeten inhabitants which would mean something under 200 million reichsmarks at the present official rate of exchange.

The question of the exchange rate for Sudeten-Czech currency holdings was brought up in the subcommittee set up by the conference here to decide on financial and economic questions arising from the cession of the Sudeten territory. Ritter, the German member of this subcommittee, who is Reich Ambassador to Brazil and former chief of the Economic Section of the German Foreign Office, yesterday took

-3-

took the stand that the matter of the exchange of currency was one purely for decision by the Germans. The British and French contested this view and surprisingly the Italian member did too, and eventually Ritter agreed tentatively that German experts would consult with Czech experts in the matter. Peroutka of the Czech Central Bank is the Czech member of the subcommittee.

In taking the above-mentioned stand Ritter stated that the Reichsbank and the Czech National Bank had already had some discussion in the matter, but made the statement that the matter would be decided by the Reich Economic Ministry rather than by the Reichsbank. It is not clear just why the statement was made. This statement is further evidence of the subordinate position occupied by Schacht and the Reichsbank and that real authority in monetary matters is vested in the Ministry of Economics.

Confidential. A British member of the subcommittee said that he and the French member, with the support of the Italian member, had endeavored to support and buck up the Czechs in their legitimate claims. According to his statement, the Czechs seemed unwilling to take a firm stand against German claims except on the one question of turning over the rolling stock to the German railways. Unless there were a proportionate assumption of Czech railway indebtedness by the Germans, the Czechs definitely refused to deliver rolling stock.

The

-4-

The question of the rate of exchange at which Czech currency held by Sudeten inhabitants will be exchanged for Reichsmarks is still being debated by the German Government. If the Czech crown is given an artificially high rate of exchange, it would satisfy the Sudeten wage earners, but it would also impose a heavy burden on Sudeten industry which is stated by the Reichsbank to have tremendous overhead costs in comparison with German industry costs. The German army is exchanging at the rate of one mark to ten crowns instead of at 11.46 crowns (the Berlin bourse rate), but it is announced that this rate is purely a temporary one. According to reports, Czech representatives here are opposed to an artificially high rate of exchange for the Czech crowns in Sudeten possession on the ground that the subsidized and artificial banknotes which would accrue to Sudeten wage earners from such a transaction might affect the voting in the districts subject to plebiscite.

The limited butter rations of the Berlin householders were reduced twenty percent this week, apparently in some connection with the food and foreign exchange problem caused by the accession of the Sudeten Germans.

WILSON

EA:DJW

CONFIDENTIAL

G-2
J M

124 A

G-2/2657-II-90

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

October 6, 1938

MEMORANDUM NO. 28 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., October 6, 1938.

General Situation. No fundamental change.

Military Situation. Except as otherwise stated the following information is based generally upon press accounts.

Great Britain -

There is no information of any general demobilization of the military forces called out during the recent crisis. In this absence it must be assumed that the coast defense units and the two antiaircraft divisions of the Territorial Army, all naval reservists who actually reported for active duty, and the Observers Corps, Royal Air Force, are still on active duty.

France -

The conscript class of 1938, having completed its two-years' service with the colors, will be released on October 15. The new class of conscripts will be incorporated in the army on November 3 and 4. Each of these classes numbers about 125,000 men. This procedure is normal.

It is believed that reservists are progressively being relieved from active duty but the rate of relief is not known. Reservists on the Maginot line, with the frontier units and with the antiaircraft defense units will probably be released fast.

Motor vehicles and animals requisitioned from civilians are being returned to them. In demobilizing, France is faced with the necessity of not weakening herself unduly before a still mobilized Germany. At the same time, the critical financial plight of the Government makes it imperative that demobilization proceed rapidly.

CONFIDENTIAL

CONFIDENTIAL

1240

As far as known, the order prohibiting leaves of absence has not yet been revoked.

Germany -

The military occupation of Zone No. 3 in western Sudetenland was completed on October 5 with perfect smoothness. Zones No. 1 and No. 2 have already been fully occupied. The occupation of Zone No. 4 will commence to-day. According to the press, the International Commission has allotted all further territory, containing a 51% German population to Zone 5, without further delay. There is a growing desire on both sides to do away with the plebiscites and to have the International Commission fix the new frontiers.

The Germans prefer the quicker method because they want to bring their troops home and begin after October 10 the demobilization of reserves. The Czechs want to have the German Army in possession of the transferred areas promptly as this will keep down the Henlein Free Corps and insure tranquillity.

Italy -

No definite information on withdrawal of Italian forces from Spain, and Italy thus far has shown no inclination to abandon her military venture in Spain. On the contrary Italian planes have been reported as responsible for bombing of English ships on October 4. There are no signs of demobilization of the reservists called as a precautionary measure during the recent crisis.

Hungary -

From Budapest thru State Dept.,
7:00 P.M., October 5, 1938.

The Hungarian Nazi press continues to urge the immediate return of Hungarian territory. It is reliably reported that there are about 8,000 fairly well armed members of the Hungarian Nazi Party. The situation is considered of sufficient seriousness as to cause the Cabinet to direct the Regent to order army commanders to disband the Nazi groups during the next three days.

CONFIDENTIAL

CONFIDENTIAL

USSR -

No news has been published as to the fate of Marshal Bluecher, formerly Commander of the Far Eastern Red Army. It is believed that he has been shot.

The Soviet press hints that the Soviet alliance with France will be scrapped as the failure of the latter to keep her pledge to the Czechs has made the pact worthless.

No troop movements reported.

Poland -

Poland insists that Czechoslovakia cede the entire Province of Ruthenia to Hungary in order to bring the borders of Poland and Hungary together and to form a barricade against the USSR.

No troop movements or demobilization of soldiers has been reported. The press estimated that from 800,000 to 2,000,000 Poles were under arms.

The occupation of the Teschen area appears to be proceeding without serious incidents and it is believed that practically all of this area has now been occupied by Polish troops.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 8, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 10:00 o'clock and spoke to Mr. Hawker, Bolton being away. Things had calmed down considerably, Hawker said. The market was a peculiar one at the moment. Nobody quite knew which way the cat was going to jump and nobody liked to make up his mind whether he should go long or short in exchange. Quotations, therefore, had been erratic. He had sold and bought a little and was long \$5,000,000 on balance as a result of today's operations. Paris was expected to be a seller of dollars partly probably because of profit taking and partly because it wanted to reduce its long position in dollars which it felt was too big.

As regards sterling, the feeling in London was that it would go weaker and there was talk of \$4.50 and even \$4.35 to the pound. This feeling was based on the ~~favorable~~ unfavorable trend of employment, on England's unfavorable trade position and finally on the increased cost of rearmament. On the other hand there was a big long position in dollars in England also which it might be found advisable to reduce before long.

The franc had been under considerable pressure today but Cariguel up to the moment had not had to support the currency.

The belga was still firm, partly as a result of flight money coming into Belgium and partly as a result of French railroad loans previously granted by Belgium maturing and having been called for payment.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 8, 1938.TO CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

2

The gold market was much more normal and underwriters were discussing a new schedule for war risk insurance rates between London and New York.

I inquired as to the gold on the Somers and was told that it had been delivered on Monday, that as far as he knew the Somers had left and was now on its way to New York. I asked that he give us details on the Honolulu and the Somers shipments as he had done in the case of the first shipment. I also requested that he give us his instructions as early as possible on the \$27,000,000 of his gold scheduled to arrive on Saturday and the further \$65,000,000 scheduled to get here on Monday. This request, I explained, was made in his interest as much as ours because unless we had preliminary advices as to the disposition of this gold it would be impossible for us to rush it through on the day of arrival. Hawker promised me he would do his best.

He stated that Butterworth had been in and asked when the Savannah arrived (this is another cruiser which, according to the papers, had left Philadelphia for England). I told him I had no idea but that I rather thought that the Treasury had no more interest in that boat.

LWK:KW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 6, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

FROM L. W. Knake

I called Mr. Cariguel at 11:55 and thanked him for Governor Fournier's letter stating his agreement with our terms and conditions and advised him that our acknowledgement had been signed and mailed today.

As regards the market Cariguel said that he had had to sell sterling recently rather heavily but that this morning things were calmer and he had had to do nothing before noon. Since then, however, he had had to sell £400,000. He had no news, he said, and not the slightest information as to the financial measures decided upon by Marchandean. All the papers carried was pure guesswork; even Marchandean's technical advisers at the Treasury seemed to know nothing.

LWK:KW

REB

GRAY

London

Dated October 6, 1938

Rec'd 2:20 p. m.

Secretary of State,
Washington.

1136, October 6, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

British securities have been firmer today partly due to the comparative moderation of Hitler's speech, partly to the adjournment of Parliament after a large vote in favor of the Government and partly to the upward movement in American stocks and commodities which induced a slightly more hopeful general attitude in the city.

The dollar which opened offered at 4.81 has moved irregularly within a range of 4.81-3/4 to 4.80 3/8 with the British control operating both ways from time to time.

The franc has remained steady but the French fund has had to give a fair amount of sterling. The forward franc at one time moved to one month's one and one-quarter, three months four and one-half and due probably to official intervention has moved out again to two and five and one-quarter respectively.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 8, 1938, 5 p.m.

NO.: 1704

FROM COCHRAN.

The September 29 situation of the Bank of France as shown on today's statement was that discounts were up 8 billion 32 million francs; 5 billion 500 million francs had been advanced to the State; there was an increase of 14 billion 861 million francs in circulation; there was an increase of 1 billion 257 million francs in deposits; thus the resulting coverage was 38.27 versus 43.01. It had been expected that the statement would be unfavorable, but the figures given above revealed so strikingly the seriousness of recent pressure on the Bank of France that at noon today the spot franc weakened when the Bank's statement was given out. Vigorous intervention has reduced the discount on the forward franc.

Some confidence in the financial and monetary situation has been revived through the further breaking up of the Popular Front party with the Communists driven into the opposition, the Government's promises that exchange control will not be imposed, as well as the Government's promises to refrain from measures of monetary facility and forced conversion, and, of course, the avoidance of war. This revival of confidence is evidenced

- 2 -

denced by the improvement in the forward franc rates, lessening of pressure on the spot franc rate, franc bank deposits have started to come back, and there is increased subscription to Government securities. It remains to be seen whether the favorable trends will long continue.

The market is today somewhat disappointed by three other factors, in addition to being shocked by the statement of the Bank of France: (1) It is understood that no date has as yet been fixed for the meeting of the Cabinet to decide upon measures which are to be taken under the Government's new authority; (2) estimates of extremely large current Government expenditures are being made unofficially, which expenditures will not nearly be covered by taxes and ordinary subscriptions to Treasury securities; (3) the senatorial elections fall on October 23, and it is gossiped that the new plans may not even be announced until after that date.

At five o'clock this afternoon I visited at the Bank of France. The French control by that time had lost approximately 700,000 pounds. The stabilization fund was therefore left with less than 4,000,000,000 francs of gold and foreign exchange. During the time that I was at the Bank, a report came in from the British control that after acquiring \$5,000,000 during the market, it had thereafter, in five minutes trading, lost \$6,000,000.

I asked

• 3 -

I asked my friends at the Bank of France whether they had any idea as to how Marchandean plans to use his full financial powers. They said they did not - except that he had bought a railway ticket to Rheims for himself. Therefore the Bank of France Governor, Fournier, feels free to go to Basel tomorrow afternoon for the B.I.S. meeting. It is not expected that there will be any developments in French finance over this weekend.

END MESSAGE.

WILSON.

EA:LWW

TREASURY DEPARTMENT

132

INTER OFFICE COMMUNICATION

DATE October 6, 1938.

TO Secretary Morgenthau

FROM Mr. White

Subject: Action recently taken by League of Nations re
Sino-Japanese hostilities.

(No official information is yet available to us. The press is the sole source of the following information.)

1. On September 19 the Council of the League invited Japan, in accordance with Article 17 of the Covenant, to assume temporarily the obligations of League membership for the purpose of settling the dispute with China.

Article 17 - In the event of a dispute between a member of the League and a State which is not a member of the League, or between States not Members of the League, the State or States not Members of the League shall be invited to accept the obligations of membership in the League for the purposes of such dispute, upon such conditions as the Council may deem just. If such invitation is accepted, the provisions of Articles 12 to 16 inclusive shall be applied with such modifications as may be deemed necessary by the Council. Upon such invitation being given the Council shall immediately institute an inquiry into the circumstances of the dispute and recommend such action as may seem best and most effectual in the circumstances.

If a State so invited shall refuse to accept the obligations of membership in the League for the purposes of such dispute, and shall resort to war against a Member of the League, the provisions of article 16 shall be applicable as against the State taking such action. If both parties to the dispute when so invited refuse to accept the obligations of membership in the League for the purposes of such dispute, the Council may take such measures and make such recommendations as will prevent hostilities and will result in settlement of the dispute.

Secretary Morgenthau - 2 -

2. On September 22 Japan forwarded to the League its rejection of the proposal.

3. On September 27 the League Council agreed unanimously that because of Japan's refusal to settle her dispute with China through the League Covenant Article 16 is applicable against Japan.

Article 16 - Should any Member of the League resort to war in disregard of its covenants under Articles 12, 13 or 15, it shall ipso facto be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State and the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the League or not. It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military, naval or air force the Members of the League shall severally contribute to the armed forces to be used to protect the covenants of the League.

(Not underlined in original)

The Members of the League agree, further, that they will mutually support one another in the financial and economic measures which are taken under this Article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will take the necessary steps to afford passage through their territory to the forces of any of the Members of the League which are cooperating to protect covenants of the League. Any Member of the League which has violated any covenant of the League may be declared to be no longer a Member of the League by a vote of the Council concurred in by the Representatives of all the other Members of the League represented thereon.

4. On September 30 the Council adopted a report making the application of sanctions and the condemnation of Japan as an aggressor discretionary with the individual member states. (We have been unable to obtain a copy of the report.)

5. The Japanese reply.

A spokesman of the Foreign Office of Japan issued a statement on October 3, according to a despatch in the New York Times, as follows:

"The Japanese Government, having always taken the stand that the Chinese affair cannot be expected to reach a just and adequate settlement by the procedure envisaged by the League Covenant, had previously declined to accept an invitation of the League Council based on Paragraph 1 of Article XVII. The Council adopted on September 30 a report that League members may individually apply Article XVI to Japan by virtue of Paragraph 3 of Article XVII.

"By invoking this paragraph the League recognizes the existence of a state of war between Japan and China, which is inconsistent with the attitude of member States, which, with regard to the question of respect for their interests in China, profess that no state of war exists between the two countries.

"The Japanese Government attaches great importance to this point.

"Moreover, should any country resort to measures of sanctions against Japan in accordance with the League declaration, the Japanese Government would be ready to adopt counter-measures.

"For the sake of world peace, Japan, after her withdrawal from the League, has continued to cooperate with that body in social and technical fields. However, the League's organs, even in these spheres, since the outbreak of the present affair, have gone beyond their proper duties and assumed a greatly deplorable attitude of indulging in political discussions and slandering at every turn Japan's actions toward China.

"Now, the adoption of the report concerning sanctions against Japan has made clear the irreconcilable difference between the positions of Japan and the League, as result of which Japan cannot but find it difficult to maintain the policy of cooperation that she has hitherto pursued toward the League."

Secretary Morgenthau - 4

The New York Times went on to say that the Japanese statement "expresses the hope that member States will give full consideration to the possible consequences of the Council's decision and govern themselves accordingly".

Below are Articles 12, 13, 14 and 15 referred to in Articles 16 and 17.

Article 12 - The members of the League agree that if there should arise between them any dispute likely to lead to a rupture they will submit the matter either to arbitration or to inquiry by the Council, and they agree in no case to resort to war until three months after the award by the arbitrators or the report by the Council. In any case under this article the award of the arbitrators shall be made within a reasonable time, and the report of the Council shall be made within six months after the submission of the dispute.

Article 13 - The Members of the League agree that whenever any dispute shall arise between them which they recognize to be suitable for submission to arbitration and which cannot be satisfactorily settled by diplomacy, they will submit the whole subject-matter to arbitration. Disputes as to the interpretation of a Treaty, as to any question of international law, as to the existence of any fact which if established would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration. For the consideration of any such dispute the court of arbitration to which the case is referred shall be the Court agreed on by the parties to the dispute or stipulated in any convention existing between them. The Members of the League agree that they will carry out in full good faith any award that may be rendered, and that they will not resort to war against a Member of the League which complies therewith. In the event of any failure to carry out such an award, the Council shall propose what steps should be taken to give effect thereto.

Article 14 - The Council shall formulate and submit to the Members of the League for adoption plans for the establishment of a Permanent Court of International Justice. The Court shall be competent to hear and determine any dispute of an international character which the parties thereto submit to it. The Court may also give an advisory opinion upon any dispute or question referred to it by the Council or by the Assembly.

Article 15 - If there should arise between Members of the League any dispute likely to lead to a rupture, which is not submitted to arbitration in accordance with Article 13, the Members of the

League agree that they will submit the matter to the Council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the Secretary General, who will make all necessary arrangements for a full investigation and consideration thereof. For this purpose the parties to the dispute will communicate to the Secretary General, as promptly as possible, statements of their case with all the relevant facts and papers, and the Council may forthwith direct the publication thereof. The Council shall endeavor to effect a settlement of the dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding the dispute and the terms of settlement thereof as the Council may deem appropriate. If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto. Any member of the League represented on the Council may make public a statement of the facts of the dispute and of its conclusions regarding the same. If a report by the Council is unanimously agreed to by the members thereof other than the Representatives of one or more of the parties to the dispute, the Members of the League agree that they will not go to war with any party to the dispute which complies with the recommendations of the report. If the Council fails to reach a report which is unanimously agreed to by the Members thereof, other than the Representatives of one or more of the parties to the dispute, the Members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice. If the dispute between the parties is claimed by one of them, and is found by the Council to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the Council shall so report, and shall make no recommendation as to its settlement. The Council may in any case under this Article refer the dispute to the Assembly. The dispute shall be so referred at the request of either party to the dispute provided that such request be made within fourteen days after the submission of the dispute to the Council. In any case referred to the Assembly all the provisions of this Article and of Article 12 relating to the action and powers of the Council shall apply to the action and powers of the Assembly, provided that a report made by the Assembly, if concurred in by the Representatives of those Members of the League represented on the Council and of a majority of other Members of the League, exclusive in each case of the Representatives of the parties to the dispute shall have the same force as a report by the Council concurred in by all the Members thereof other than the Representatives of one or more of the parties to the dispute.



134





139





141



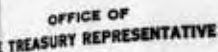
142



Regraded Unclassified



Regraded Unclassified



145

UNITED STATES TREASURY DEPARTMENT
AMERICAN CONSULATE GENERAL
HONG KONG

October 6th, 1938

The Honorable

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

Dear Mr. Secretary,

I enclose reports typed from notes sent me by Dr. Buck from Yunnanfu.

Respectfully,

Ernie Saunders

Enid Saunders
Secretary to Dr. Buck

DECLASSIFIED BY 10153/38
RECEIVED BY 210
SECRET/VA.2 COMBIBLONDERGE DIVISION

RECEIVED
OCT 25 1938
TREASURY DEPARTMENT
UNITED STATES OF AMERICA
WASHINGTON, D. C. 20540

I N D E X

	<u>Page</u>
Yunnan Currency and Silver Reserves	1
Silver in Yunnan	3
Yunnanfu-Burma Railroad	4
Yunnanfu-Burma Motor Road	5
Cotton in Yunnan	6
Transportation within Yunnan	7
Agricultural Projects	8
Americans in Yunnan	9
Local Conditions in the City of Yunnanfu	10

September 25th, 1938

To Secretary Henry Morgenthau
From J. Lossing Buck

YUNNAN CURRENCY AND SILVER RESERVES

Mr. T. S. Miao, important local financier, business magnate, and member of the provincial government, states that he has agreed to the replacing of the Futien banknotes with Central Bank of China notes, whenever the Central Government has only one central bank note issue: in other words, whenever the note issues of the Farmers' Bank, the Bank of China, and the Bank of Communications are replaced by Central Bank notes. He states that the silver reserve back of the Futien notes is 30 million yuan, in the vaults of the Futien Bank, and that in case of need the Bank would be willing to sell these reserves. He says that some silver is continually acquired, and that some has been sold on the London market.

He stated that currency control is being maintained in accordance with Central Government regulations by control of bills of exchange derived from exports, and that the Yunnan government has gone one step further in controlling imports also. (As a matter of fact the Central Government is also exerting some control over imports). An effort is being made to increase exports, and tin products are subsidized if prices fall below a certain amount, in order to keep up tin production. He also stated that he is interested in the transportation of wood oil from Szechuen and Northern Yunnan via Yunnanfu.

They are maintaining the exchange value of the new Futien notes at a fixed value of two to one with the national currency, even though at times the Futien notes actually have a higher value.

Mr. Cheng, of the Shanghai Commercial and Savings Bank, reports that actually in the open market there is a premium of one to two dollars per thousand new Futien notes in exchanging Central Bank notes. He also states that the import restrictions are hampering trade, partly because of the delays in obtaining permits. He also mentioned the difficulty of importing goods, because of the inadequate facilities of the Yunnan Railway.

Mr. Cheng, like so many others, is suspicious that the Futien Bank does not have silver reserves, but has turned them into foreign currency. He also states that Yunnan has practically a monetary system of its own. This is borne out by all the information I have obtained.

September 23rd, 1938

To Secretary Henry Morgenthau
From J. Lossing Buck

SILVER IN YUNNAN

T. S. Miao is also a mining engineer, trained in the States, speaks English fluently, and is very familiar with conditions as he travels a great deal.

He states that silver in Yunnan is found in lead ore to the extent of an average of about 18 ounces per ton of lead ore. Lead deposits are found in many places.

The actual extent of mineral resources is unknown, as no thorough study has been made.

September 24th, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

YUNNANFU-BURMA RAILROAD

I talked with Mr. Sak, head of the new Yunnanfu-Burma Railroad. He has six surveying parties out at work on the various sections. At the Yunnanfu end he expects actual construction to begin by December of this year, and hopes to complete the railroad in two years.

September 23rd, 1938

To Secretary Henry Morgenthau
From J. Lossing Buck

YUNNANFU-BURMA MOTOR ROAD

I talked with Mr. Lo, who has supervising charge of the Yunnanfu-Burma road, and who returned over the road by motor car about three weeks ago. He states the road is completely paved to the Burma border, but that some bridges have to be strengthened and used temporarily until the permanent bridges can be built. He says the road will be ready by January, 1939, for motor truck transport. The earthwork was completed in three months time, with forced labor. The delay in the Burma section is due to unfavorable climatic conditions, and the difficulty of securing Chinese labor until after the harvest season. (Photos enclosed).

September 23rd, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

COTTON IN YUNNAN

There is one cotton mill in Yunnanfu, of 5000 spindles, which seems to be the most important factory in operation. It was started three years ago. The manager, Mr. King, is a very capable person, and is thoroughly acquainted with local conditions.

His mill is to be enlarged to 30,000 spindles. Cotton production of Yunnan is estimated at one million pounds. Improvements can be made in production which will increase the yield, and with increased production in other crops, the area in cotton could be extended.

While the chief export of Yunnan is tin, the chief import is cotton, in various forms, from Burma and from Shanghai. Last year tin exports amounted to 26 million yuan, while cotton imports were 15 million yuan. Cigarettes are second to cotton in importance in imports. Cotton purchased in Burma is paid for with Burma rupees acquired through various exports to Burma.

September 27th, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

TRANSPORTATION WITHIN YUNNAN

There is agreement among local business people that interior transportation is cheaper by cart, pack animal, or even by carrying, than by trucks. T. S. Miao is taking steps to improve the type of cart used. He is also considering organizing gangs of a thousand men each for transportation by carrying.

September 25th, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

AGRICULTURAL PROJECTS

T. S. Miao is connected with a government irrigation project for the reclamation of 25,000 acres of land near Meng Tz. The canals and dams have been completed, and 1000 acres of rice were grown successfully this year. The plan is to rent the land to farmers, and to permit the farmer to purchase the land with savings, in 10 - 15 years time. Initial houses and equipment are being supplied by the government.

Agriculture is limited in Yunnan by rough topography, by porous soil, by dry weather in winter, and excessive water in summer.

September 27th, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

AMERICANS IN YUNNAN

Mr. S. Y. Cheng of the Shanghai Commercial & Savings Bank
remarks: "There are practically no Americans in Yunnan - chiefly
people of other nationalities." His implication was that more Americans
would be welcomed.

September 21st/29th, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

LOCAL CONDITIONS IN THE CITY OF YUNNANFU

The influx of civilians from the war areas has increased the population of Yunnanfu by three-fourths, and the influx of Central Government organizations, especially factories, has resulted in a great shortage of houses and of building materials. Yunnanfu has no large supply of brick, timber, or lime, and the many factories and the people building new residences are competing for these materials. Stone is more plentiful, but requires a longer time for building, and occupies more space for walls. Landlords hold up would-be tenants in various ways, in order to obtain extremely exorbitant rents.

There are various new factories and projects, practically all in the stage of erection. Most of these factories are handicapped in the delay of shipment of equipment via the Yunnan railway.

At the hotels one finds quite a number of foreign experts connected with these factories. I travelled from Hanoi with a Mr. Blake of the National Resources Commission, who has come out as representative of a British firm, to assist the Commission with the operation of a copper mine and cable factory. He was hurried out, only to find on his arrival

that the factory is far from completed, and that some machinery must still be ordered.

Two other foreigners are here in connection with the erection of a powerful Central Government radio station. It is located in the hills outside the city. The power house will be located in a narrow gorge, and will be bomb-proofed above.

The large aviation school is also located here, with a personnel of about 2500 instructors and students.

Two air raid warnings have virtually created a panic among the local people. The local government is urging people who can to leave the city for the country. Schools have been closed, and are being moved to the country. I have not seen such fear of air raids anywhere else. Air precautions have not as yet been well organized. Many workmen stopped work yesterday through fear of a raid. Numbers of people were rushing through the streets, because of warnings given out by the police in advance of any siren warning. The local government is urging local people to leave partly with the idea of giving more room for outsiders. Local people have homes in the villages to which they can go, and at the same time they can rent their buildings to the newcomers.

September 27th

Today I visited some temples in the Western Hills, and found them full of well-to-do people refugesing from Yunnanfu, for fear of raids. I saw several groups of people moving into the country with their possessions.

September 28th

An air raid warning this morning at about 9 o'clock sent people scurrying to the fields outside the city, where they are supposed to go. About fifteen minutes later the second alarm sounded, and in another five minutes nine Japanese planes in perfect formation flew directly over my hotel and released bombs on the air field. About twenty minutes later a Red Cross ambulance drove to the French Hospital next door with a foreign air mechanic who had received three shrapnel wounds from the bursting bombs at the aerodrome. This raid will change the psychology of the local people in that they will realize that Yunnan is not immune from the war. It will also make the Central Government realize that its numerous factories in the process of building will not be immune either.

There was no effective resistance to the bombing this morning. A few small 22 cm anti-aircraft guns fired. No pursuit planes were in evidence attacking the bombers. All morning training planes were up, but disappeared at time of bombing and then returned. Whether or not the bombers were attacked on their return journey by the fifteen pursuits cannot be ascertained in Yunnanfu at the present time.

The influx of some two hundred American return students in various capacities is a factor which will stimulate many changes in Yunnan.

GROUP MEETING

October 6, 1938.
11:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Hanes
Mr. Gibbons
Mr. White
Mr. Lochhead
Mr. Upham
Mr. Bell
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Mr. McReynolds, what have you got to say for yourself?

McReynolds: I've been working since Monday morning, except for three hours day before yesterday afternoon when you tried to get me; I wasn't here.

H.M.Jr: I would. Have you and Upham been together?

McReynolds: We have.

H.M.Jr: Now, I don't have to get into that; if Delano and you want McReynolds

McReynolds: That's been made entirely clear. We've got the thing all set.

Upham: ? We do. Acknowledging what you wanted done.

H.M.Jr: Right.

McReynolds: And one thing that we're doing, as I told Cy, I've designated an Accounting Committee (talking too low) similar to the one that handled the audit of the stabilization fund. They are going in first thing.....

Klotz: Louder.

- 2 -

McReynolds: they are going to make a complete audit.

H.M.Jr: Of what?

McReynolds: Of all the financial operations of the Comptroller's Office, and set up an accounting system.

H.M.Jr: Has there been no audit?

McReynolds: No. There has been

Upham: I don't think there's been any outside audit.

McReynolds: They've got an auditor down there of their own, that audits their own accounts.

H.M.Jr: Mac, you fellows do it; when you've got something, tell me about it. If you can put your teeth in this thing and give me the service, I am not going to worry about it.

McReynolds: It's already underway.

H.M.Jr: O. K.; that's all I want from Diggs. Take a can opener and take a look at the whole thing. Fine.

(Mr. Hanes comes in.)

H.M.Jr: Hello. How are you?

Klots: Good morning.

Hanes: Good morning.

McReynolds: And we can make the same arrangements, with respect to

H.M.Jr: If you give us a progress report, when you have something to report - o. k. Huh?

McReynolds: Yes sir.

H.M.Jr: What else?

McReynolds: I got word

H.M.Jr: A little louder.

McReynolds: I got word from the Department of the Interior yesterday, the Administrator of Public Works, that our garage allotment had been turned down.

H.M.Jr: Why? Did you go to that Census Building?

McReynolds: I don't know; but Ickes said that he recommended it and that it got turned down beyond him, and I said, "How can I find out?" I talked to Burlew. He says, "I don't know; I really can't tell you anything more; maybe your boss could find out if he asked the President."

H.M.Jr: Let's see. Well, I'll call Ickes first, don't you think so?

McReynolds: Yeah.

H.M.Jr: How much was it for?

McReynolds: About two hundred seven thousand dollars.

H.M.Jr: How much?

McReynolds: Two hundred seven thousand dollars. They were all old allotments, already made to the Treasury.

H.M.Jr: What else?

Bell: Under old N. R. A. money?

McReynolds: Yes.

H.M.Jr: I'll ask so I can have it. What else, Mac?

McReynolds: I have here a suggestion of our boys for authorization from the Stabilization Fund, to fix up Harry White's office.

H.M.Jr: What do you want to do, put murals on the wall?

McReynolds: He's got adequate space over there, but it just looks like ... (hesitating)

White: Worse than that.

McReynolds: Worse than that, see; he has no rugs or anything of that kind. We've spent most of our contingent appropriation around the Treasury; it's all shot

- 4 -

after having fixed up some of the other offices.

H.M.Jr: How much will it cost?

McReynolds: It will cost about one, two - about four hundred dollars, altogether.

H.M.Jr: Has Lochhead been over it?

McReynolds: He refuses to approve.

H.M.Jr: Well, Lochhead's

White: This is new to me.

H.M.Jr: If it's new to you Harry, White, Lochhead, and you (Mr. McReynolds) get together on it.

White: As long as I - Mac and I - two out of three....

H.M.Jr: Mac hasn't said he was for it.

Klotz: Well, he is.

McReynolds: I told the boys when they brought it to me I wouldn't do anything at all without bringing it first to your attention, because of the fact the Stabilization Fund is involved, but that office is paid from, and all the personnel is under the Stabilization.

White: I don't understand why the Stabilization Fund is involved, but maybe Mr. McReynolds can explain.

H.M.Jr: Well, Mr. Mac will conduct a hearing; will you, Mac? I personally don't think the Stabilization Fund should go into interior decorating. I think White's room should be fixed, but not from there.

Taylor: Could probably build that garage on that basis; maybe Harry could park his car down there.

White: I am entirely in agreement, but I don't think it is under the head of interior decorating.

H.M.Jr: All right, Mac, I refer it to White's committee, and see that White gets it, but not out of the Stabilization Fund.

- 5 -

McReynolds: Might get it on credit.

H.M.Jr: Well, lots of business being done that way.
All right.

McReynolds: That's all I've got.

H.M.Jr: Dan?

Bell: You asked me some time ago about the new Hackensack airport. That came over in August while I was away, and had on the application eighty-four per cent of the money to go to non-relief labor, and supplies, materials, and things of that kind. It was sent back and just came back this morning, and it's fifty-four per cent. Ordinarily it would be objected to, but

H.M.Jr: I am not - the airport is good enough now. I don't know why they need that. I mean, I don't care, personally.

Bell: Don't you?

H.M.Jr: No, I don't.

Bell: Well, the application is back - thirty-two thousand dollars.

H.M.Jr: As far as I am concerned, I am negative on that; I won't take any position.

Bell: I see.

H.M.Jr: So you can just treat it as any other air port, will you?

Bell: (Nods "Yes.") That's all I have.

H.M.Jr: I have one thing. Tomorrow, I'd like to have - before noon, if it is possible, I'd like to know, in the various credit agencies of the United States - use Home Owner's Loan as an example - how many people have they got doing examinations; examinations of their credit agencies - how many people are there doing examinations similar to the Comptroller's Office, other than national banks, but where Federal money is directly involved, or we guarantee it.

- 6 -

(Brief interruption by Dano,
H.M.Jr's. Great Dane.)

Bell: You wanted all the Federal agencies?

H.M.Jr: All.

Bell: Whether we have any kind of an interest, stock purchase, or

H.M.Jr: Anything where we in any way have activities which would all parallel the Comptroller's Office. Let the people go in that are checking up.

Taylor: There are two big ones - only ones - the Home Loan Bank System, and the other is the farm agencies that come under the Foreign Credit Administration.

Upham: And the F. D. I. C., of course.

Bell: F. D. I. C.

Taylor: I think that was mentioned before.

H.M.Jr: And R. F. C.; I wasn't thinking of that.

McReynolds: And Farm Credit - they are all members of this examining force.

(Mr. Gaston, Mr. Oliphant, and Mr. McReynolds
all talking at the same time.)

Bell: You didn't have that in mind?

H.M.Jr: No.

Bell: It would be the Home Owner's Loan, Home Loan Bank System, Federal Savings Loan Associations - just the number of people.

H.M.Jr: Yeah, and what it costs - I want that information tomorrow noon, please.

Bell: O. K.

H.M.Jr: Is that pushing you too hard?

Bell: I don't think so. May I ask the people for it?

H.M.Jr: Yes, sure; sure. Might as well do it openly; they'll find out sooner or later, through the columnists anyway. All right?

Bell: Yes sir.

H.M.Jr: How many people did you invite to have lunch with me tomorrow, Harry?

White: There are four, to my understanding, coming.

H.M.Jr: Have you given Mrs. Klotz a list?

White: She has the names.

H.M.Jr: Has she the names?

White: I think so.

Klotz: (Nods "Yes.")

H.M.Jr: I want you tomorrow, Bell. Will you please give me back that memo on fiscal policy (speaking too low.)

Bell: Yes, I have been holding it to talk to you about.

H.M.Jr: (Speaks in low tone to Mrs. Klotz.)

White: I'd like to see you for about five minutes before then.

H.M.Jr: Sure. You can stay right after this meeting, Harry.

Dan?

Bell: (Nods "Yes.")

H.M.Jr: (Nods to Mr. Upham.)

Upham: One matter developed this morning which makes it seem advisable to have this little banking advisory group meet for five minutes, if possible.

H.M.Jr: Well, let's say, if it is convenient to the people, at two thirty. All right? Anybody

got an appointment at two thirty?

Upham: I think Mr. Oliphant and I would like to have this before the meeting in San Francisco, which is at one o'clock.

H.M.Jr: Well, it will push me some.

Gaston: One o'clock, our time?

McReynolds: Same thing.

H.M.Jr: All right, right after this meeting. Harry, you come in at two thirty.

White: I have a meeting at two thirty. I can break it, but

H.M.Jr: Where is your meeting?

White: It's in the Interior Building.

H.M.Jr: Can you be here at two fifteen?

White: Fine.

H.M.Jr: What?

White: Fine.

H.M.Jr: Well, you may have to break that meeting. When you come I'll explain it to you.

(Nods to Mr. Lochhead.)

Lochhead: One thing rather interesting, notwithstanding the slight improvement in the rate abroad, bettering conditions, gold is still flowing here. Our (Charges?) - (1 word) are getting gold and bringing it over, so apparently the move has not altogether stopped.

H.M.Jr: (Speaks in low tone to Mrs. Klotz.)

(Nods to Mr. White.)

White: Here is the memo here you asked for about Japan and Germany, and they

H.M.Jr: Will you see it goes to the house? Give it to Mrs. Klotz.

- 9 -

White: Then there's a memo on Brazil that Mr. Smith prepared some time

H.M.Jr: Let them all go up to the house.

White: Then this report which was received from the Import-Export Bank; I don't know what you want to do with these from now, on their activities.

H.M.Jr: Well, I'd like to read them, and then we can circulate them. I take it that Mr. Taylor wants to see them as he's a Director. If it goes up, I won't keep it more than tonight, and then we'll circulate it.

White: This Portuguese is not included.

H.M.Jr: Are you familiar with what I wanted on that?

Taylor: I think so.

H.M.Jr: See, Jesse shoots these things at me and I don't know what he's talking about, and I want to be prepared, so during your absence, you see, we phoned you - no one seemed to have it. Do you want to see that or do you know what it is.

Taylor: I think I know what it is.

H.M.Jr: Supposing you show it to Mr. Taylor first and ask him if it's just for me - then give it to me - just what he wants to do with it.

Taylor: That's that weekly report of

White: decisions made.

Mr. Dye, Department of Commerce, called up and said he understood some negotiations are going forward with the Chinese and that pressure is being brought to bear with respect to flour in China. He said he's been following the situation rather closely and they are interested in it, and he said - well, I'll tell you about it.

H.M.Jr: What I want to do is get together with you people and have you bring me up to date on China, because at ten thirty tomorrow Mr. Parker, who is the head of the Socony-Vacuum will be here, and

- 10 -

so will - representing Socony-Vacuum - and so will Mr. Jimmy Moffett, representing Standard Oil of California and Texas. Now that is all the interests in China, and I want to prepare myself ... (misunderstood one word). I want to know all about this, so how important is your meeting?

White: Oh no, no, no, no, no.

H.M.Jr: I'd like, if you fellows are ready, I'd like to do this at two thirty.

White: Perfectly all right.

H.M.Jr: And then if it is convenient for Chen to be around the Treasury from a quarter of three on, I might want to ask him, you see, and I told these gentlemen - and it's very interesting; Socony-Vac have already started this on an experimental basis, of taking oil up and bringing tung oil back. They have already started it; they are experimenting on it.

White: Mr. Chen, I gather, didn't know that.

H.M.Jr: They are doing it in a small way. Jimmy Moffett is bringing his operating man, too. If it's agreeable to everybody we could do China at two thirty. You all right?

Oliphant: (Nods "Yes.")

White: Mr. May is here, the Treasury Attache from Berlin. I don't know whether you happen to know it or not, and he's going to be here - my understanding is he's leaving tonight. I don't know but what you might like to talk with him.

H.M.Jr: I can't do any more than I am.

White: I imagine he could stay, I don't know, if you were interested in talking to him.

H.M.Jr: Where is he going?

White: I don't know.

H.M.Jr: Mac, tell him to stick around till I get around to it. I can't do it this week, but he may be around Monday.

- 11 -

Klotz: He may be going up to New York.

H.M.Jr: To New York, and be back Monday.

White: Mr. Ruml called up, in response to a request you made of him some time ago that anything unusual, would he please let you know. He did, and I passed it on to George. I am checking up to see whether the situation is the same elsewhere. Briefly, he said they had expected business to snap back after the sharp decline which took place, owing to the acute political crisis abroad, and business has not snapped back.

H.M.Jr: George, on that, will you take this (news clipping)? Call up on the phone and get the day delivery since the first of October, on the day basis. I mean, Macy's may be an isolated case.

White: He said it is possible.

H.M.Jr: That concern delivers packages for three hundred stores in New York. Ruml could get that; they use them. I'd like it on a day basis. In another chain store in that city, on Friday and Saturday, business was just wonderful.

White: He said Macy's might be isolated.

H.M.Jr: As soon as this thing was over, customers began to come in and buy the way they hadn't bought in a long time. That takes care of three hundred stores in Greater New York. Ruml has been getting it on the phone; if he can't, ask the Federal of New York to do it for me.

Haas: Yes.

H.M.Jr: | Incidentally, clear that through Goldenweiser. Eccles said if we wanted anything like that

Haas: Wouldn't it be better to call the Federal first?

H.M.Jr: Just get it; I'd like to have it by noon tomorrow. I just wanted to let you know they'd like us to clear through them.

| Some words missing

- 12 -

Haas: That's rather peculiar to all of Metropolitan New York, according to figures. This will show it.

H.M.Jr: This (clipping) is dated this week.

Haas: This week?

H.M.Jr: And that will give the answer to this week. The stock market says he's wrong, but we'll see.

White: That sub-committee on supplemental measures to promote foreign trade has been formed. I spoke to Wayne about it; they asked me to serve on it. They have just distributed an agenda. It certainly covers everything - monetary matters, and so on.

H.M.Jr: You'd better take more than five minutes; you can have fifteen minutes, from two fifteen to two thirty; I'd like to see that.

White: Yes. And are you interested in merely this bit of information? The revaluation of the gold stock of France is apparently being contemplated seriously, and it will result in a profit of thirty-three billion francs, which will make

H.M.Jr: I read that.

White: Oh. And then there was a couple of cables from Buck. One of them I thought you might wish to read before the Chinese came.

H.M.Jr: Can we do it at two thirty?

Lochhead: You have those cables.

H.M.Jr: Where?

Lochhead: Those came in about two - three days ago.

H.M.Jr: Tell us verbally what's in them at two thirty. What else, Harry?

White: That's all.

H.M.Jr: You're coming in at two thirty.

(Nods to Mr. Gibbons.)

Gibbons: The Comptroller General has rendered an opinion to go ahead and buy those airplanes - bid came in yesterday.

In 1936 when I was on vacation you signed a telegram to Saul Haas, the Collector of Customs in Seattle, to take a leave of absence, without pay, and to manage, I think Schwellenbach's campaign. He's asking for it again now, for Bone. I don't think we should do it. Jim Farley called and spoke - gave his advice on it. I don't think he wants to do it because he telephoned me and asked me to send him a telegram to take care of his duties; then he called me back day before yesterday and apparently Bone was sitting at his elbow and putting him on the spot, and he asked for it again.

H.M.Jr: I'd do it. I'd do it.

Gibbons: You mean you'd refuse it?

H.M.Jr: No, I'd tell Senator Bone he could do it - same as '36. Let Bone and Haas figure it out between themselves.

Gibbons: I don't know why we did it in '36.

H.M.Jr: Farley called yesterday - Helvering sitting at his side - and wanted to know could our Collector of Internal Revenue in Wisconsin take a leave of absence to run for an office; I said yes.

Gibbons: To run for an office, that is different.

H.M.Jr: I mean, I have gone all through the thing with Bone; he put a terrific pressure on me. Certain things aren't worth fighting for, and that isn't. I mean, if a fellow wants to take a leave of absence without pay, we established the precedent; we'll have to do it again.

Gibbons: What would you say to sending a letter of congratulations to this fellow, Jim Mead, on this Reorganization plan.

H.M.Jr: Want me to do it?

Gibbons: It's not political.

H.M.Jr: (To Mrs. Klotz:) Send him the same card I sent Polletti, except don't include Mrs. Morgenthau.

They're awfully touchy up in New York. My God, I was asked three times if I congratulated Lehman; I did it the same day. Gee, the people are touchy up there. It's all right.

Gibbons: The judge has heard about the conversation we had; somebody told Ballinger the other day, and he asked him why; Ballinger said, "You have lapses of memory," and he admitted it. He put it up to Ray directly, first, "Does the Department think I am falling down on the job," and second, "Do you think I am? Is anything happening that shows I am not able to carry on?" Ray told him, yes, the Department thought he was falling down on his job, and that he thought he was retrograding because of his age. The old man is pitiful; Ray told him, "If you have lapses of memory you can't concentrate." The old man said, "Yes, that is a sign; I've noticed that myself; that's a sign."

H.M.Jr: I - well, I read the telegram and report you wrote me of your talk with Senator Thomas of Utah. In view of that, it would be slightly impractical; I think we'd better skip it until after election. There is as much chance for that as I have for the Administration to come out with an economic program between now and election.

The President's going to see you, (Mr. Bell) and you (Mr. Hanes), and me, on the budget and taxes, and I am putting you two gentlemen down on Monday morning for ten thirty, for an hour - from ten thirty to twelve as far as I am concerned, and then if Bell will come in with what he thinks it's going to be, and you will come in with the answer on how to raise it, depending on what Bell says - it will probably take an hour or an hour and a half Monday morning.

Hanes: Good; I think the President will see us.

Klotz: The President?

H.M.Jr: No, I want to do my home work here and the President will see us - he said he will see us.

- 15 -

Bell: You mean, you want to see what it looks like for 1940?

H.M.Jr: Yes.

Bell: I don't know whether I'll be ready or not.

H.M.Jr: Well, let's start anyway.

Bell: I thought you were going to see him on what's being done in the present program.

H.M.Jr: Well, let's see him - let's see what we should see him about. I want to get my teeth in this thing. No, let's take a look at it.

Bell: All right; will you have something, George, tomorrow? Revenue in?

Haas: Yes, they have tentative figures. You see, we have to make a brand new thing. It will be a very tentative figure - give you something to work on.

Bell: All right.

H.M.Jr: Should George be here - does he....?

Bell: On the Revenue side.

H.M.Jr: O. K., George; all right, you be here too, George.

Haas: When is that Monday?

H.M.Jr: Ten thirty.

H.M.Jr: (To Mr. Gibbons:) Through?

Gibbons: (Nods "Yes.")

H.M.Jr: (Nods to Mr. Hanes.)

Hanes: I haven't anything; I'd like to see you about five or ten minutes sometime today; I have some matters on the Internal Revenue.

H.M.Jr: Well, ah, would you leave it this way? When we're through on the Chinese matter, that you do it then.

Hanes: This afternoon or tomorrow morning, either one.

Klotz: This afternoon.

H.M.Jr: This afternoon, after the Chinese.

Hanes: All right.

H.M.Jr: Chinese thing won't take too long. Is that all right?

Hanes: Yeah.

H.M.Jr: Wayne?

Taylor: The only things I had, you have covered all right in these.

H.M.Jr: All right. Nothing special?

Taylor: Except banks.

H.M.Jr: Yeah. George?

Haas: I've got some material on that question you raised about the effect of P. W. A. expenditures, you know, and prices.

H.M.Jr: I'll take you tomorrow, George, on that; at ten thirty tomorrow morning, unless you want a press conference. Do you? No, I can't at ten thirty; we're having those people.

Klotz: What people?

H.M.Jr: The Socony-Vac people. Eleven thirty, George, tomorrow.

Haas: In addition, I have had that meeting yesterday written up. Nothing happened there. I think you should read from here on down (hands H.M.Jr. memo). Perhaps the discussion after the meeting, which is interesting.

H.M.Jr: (Reads memo) Uh huh.

(To Mrs. Klotz:) Will you take that down, please.

Haas: That's all I have.

Gaston: I'd just as soon let the press conference ride until Monday - not have any.

H.M.Jr: Sold.

Gaston: Fortune Magazine is asking for a couple photographs; one, they'd like to take the nine-thirty group; two, they'd like to take Lochhead's shop.

H.M.Jr: It's all right.

Gaston: O. K.

H.M.Jr: Nine thirty tomorrow morning.

Gaston: They submitted an outline - sample draft of the operational set-up of the Stabilization Fund, that we all thought was pretty sad. I had a talk with Al Moran about it yesterday, with the result he put it in his pocket and took it away again. What he would like would be a log of a typical day's operations, of hour by hour.

H.M.Jr: You and White and Lochhead had better talk to me about it sometime. The idea of them sending a third-rate man down here to do a thing like that.

Gaston: There's nothing to change my first impression that he's not - hasn't the economic background to handle that thing.

H.M.Jr: But I'll just have to work it in sometime. You (Mrs. Klotz) keep it in mind to see Gaston, White, and Lochhead on Fortune.

Gaston: That's all, but a little matter of twelve-cent stamps or three-cent stamps.

Klotz: I haven't talked to him about that.

Gaston: You haven't talked to him about that.

Klotz: Oh no.

McReynolds: (Words inaudible.)

Klotz: Spent so much, there's such a little difference, I think I (inaudible.)

H.M.Jr: Twelve cents. What else?

Gaston: Nothing; that's all.

H.M.Jr: Herman?

Oliphant: (Nods "No.")

H.M.Jr: Say, I hear Zabaga - whatever his name is - made a swell witness - very good.

Oliphant: (Nods "Yes.")

H.M.Jr: What's his name?

Oliphant: Zabala.

H.M.Jr: Zabala. All right.

Well now, let's see, on the banking business, you know who to stay; will you stay? I think Mac, you'd better sit on this thing, as you are going to reorganize the Comptroller's Office.

RE POSSIBLE CHINESE AGREEMENT

October 6, 1938.
2:35 p.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Oliphant
Mr. Lochhead
Mr. White
Mr. Haas
Mr. Chen (for brief period)
Mr. Mau " " "
Mr. Ren " " "

H.M.Jr: Now, tung oil?

Lochhead: This is the cable from Buck about the railroad line. Those are general, showing the conditions of transport down south.

H.M.Jr: Shall I read them first?

White: Rather complicated. I think you'll have to read them at your leisure.

Lochhead: You've (White) seen those.

White: Yes.

H.M.Jr: Just a paragraph.

Lochhead: Report of railroad conditions.

H.M.Jr: Let me just glance at that - at them a second. - -
Well, I can take those to the house tonight.

White: You have to read them over a couple times to get the sense from it.

There's another cable here - I don't know whether you read it, but it contains one sentence at the end - but I think you ought to read this cable tonight; it merely indicates the importance of getting some assistance early if they're going to get any.

H.M.Jr: See they go to the house tonight.

Oliphant: Send me a copy?

H.M.Jr: (Nods yes)

White: Give you very briefly - the legal department has prepared a statement of how it could operate, a simple statement

-2-

of the outlines.

H.M.Jr: Give it to me verbally.

White: There would be, as you suggested, a company - a Chinese company set up here which would have a monopoly of all the Chinese exports of tung oil. They in turn would contract with the individual concern in such a way as to insure to each user a fair share of the output, because it is expected that the total output of China in the next few years will be much less than the American consumption has been in the past. Therefore, it will be necessary to see that everybody gets a proportionate share of whatever there is available.

It is Mr. Chen's idea, following your suggestion - he says he hopes that if this organization is set up it will be the organization which would likewise handle all the Chinese business.

The amount of tung oil ...

Taylor: You mean of all kinds, Harry.

White: The import and export with the United States, patterned somewhat after the Amtorg. And he seems to be very enthusiastic about establishing an organization.

H.M.Jr: I made that suggestion....

Taylor: I think it's a swell suggestion.

H.M.Jr: ...that they duplicate an Amtorg, and applied not too gently, if they'll run it honestly, which the Amtorg was. The Amtorg was run honestly - no commissions.

White: Now, the American industry, as represented in part at least by Mr. Grace's man, Mr. Austin, who came down

H.M.Jr: Who?

White: Mr. Austin.

H.M.Jr: A-u-s- ...

White: A-u-s-t-i-n. Mr. Hanes suggested he come down. Seemed very interested in the possibility of obtaining tung

-3-

oil under conditions which would assure them stability of price and possibly stability of supply.

H.M.Jr: May I interrupt you to just get the picture: who does Austin represent?

Hanes: He represents W. R. Grace and Company.

White: They're the biggest

Hanes: They're the smallest of the three largest importers of tung oil in this country.

H.M.Jr: Grace and Winfield.

Hanes: No, W. R. Grace.

H.M.Jr: Oh, W. R. Grace. I thought you said Grace and Winfield. Oh, Grace - W. R. Grace and Company.

Hanes: Yes.

H.M.Jr: I didn't understand. I know them.

Hanes: And they're the smallest of the three largest importers of tung oil in this country, the other two being Archer, Daniels, Midland Company and Spencer, Kellogg, and Son.

Oliphant: Johnny and I first talked with the large users, and they suggested we ought to talk with the large middlemen; and then we talked with three, including Austin from W. R. Grace and Company.

Hanes: The reason we asked Austin to come back was because he seemed to be the one most familiar with the transit problem.

Oliphant: Most familiar and most pessimistic.

Hanes: Yes.

White: That's right. And there is the fear that the amount of tung oil which will come out of China will be rather small in the event Hankow is taken.

H.M.Jr: Excuse me. To get the whole picture, let's have George ~~Heas~~ sit in. (On phone) Ask George Heas to come in.

I'll settle down after a while.

-4-

Walter: They seemed to be much more interested in the possibilities of some kind of a deal. And it also gives an arrangement of this kind, if it proves successful, an aspect which would look like a pretty smart deal on the part of America if it goes through, because it would mean that American users would have a monopoly, a complete world monopoly of the use - of the consumption of tung oil, because China produces more than nine-tenths of the tung oil, and the amount they produce would be less than the amount they would guarantee to deliver here. Therefore, they would have to deliver all they produced, assuming this went through, and

H.M.Jr: Now, what's in it - I'm a Chinaman - what's in it for me?

Walter: The payment is made of 50 percent - that was a figure - wasn't suggested to them, merely one we used here - 50 percent of the total value of - whether three or four years' delivery of tung oil, specified at a rate which is probably doubtless in excess of what they could deliver; but you could move that down.

H.M.Jr: Well, use figures so I could remember them.

Walter: There's - 75,000 tons was the figure that was used, but for three years.

H.M.Jr: 75,000 tons a year?

Walter: Per year.

H.M.Jr: Per year.

Walter: For three years, at - we used \$220 a ton. Now, the figure of 75,000 tons is much too high.

H.M.Jr: You mean for use? (H.M. comes in)

Walter: For their ability to export.

H.M.Jr: I see.

Walter: Mr. Austin said if they could be guaranteed a stable supply at a stable price, they felt fairly certain that

-5-

he could push up the consumption in this country to a hundred thousand tons.

H.M.Jr: Well, what could the Chinese develop?

White: If Hankow falls, after they get rid of some of the surplus stock Mr. Chen felt that 30,000 tons - 30 to 35 - would be more reasonable. Mr. Austin felt very skeptical about their ability to export that much, though he says the Chinese have virtually performed miracles, and he would not be completely surprised.

H.M.Jr: Oh, could they do 25,000?

White: Well, Mr. Chen would probably say he would hope so and think so, providing he can get organized this transportation - this fleet of trucks which he hopes to go into with you here.

H.M.Jr: And you're figuring 220?

White: 220, which is probably too low, because their expense of transportation will be much higher than it has been, and the 11-cent price might be too low.

Oliphant: Chen said 11½.

White: 11 is merely what we used here. Mr. Austin said that if the price goes above 12 cents substitutes begin to compete pretty heavily. Whether that's true or not, I don't know.

Oliphant: Said 12 cents is the turning point.

White: That would make it \$240 a ton instead of the 220 which we used. Now, the Chinese are very interested

H.M.Jr: That's only six million dollars. What would be the down payment of 25 million dollars?

White: If you used the 75,000 figure.

H.M.Jr: Well, that's a phony.

White: Yes. Well, it is - very true. That's why you might want to reduce that to 50,000 or 40,000. And then if

-6-

you wanted to make the amount a little larger, you could make it a four-year contract instead of three. And in this instance alone - I don't think there's a comparable instance - the monopoly of that stuff would be a good thing for American industry. That would not be true of tin, not be true of antimony, not be true of tungsten.

H.M.Jr: Do you have the figures of the amounts they have shipped to us the last three years?

White: Last year I think they shipped 75,000 tons, but they

H.M.Jr: Well, who's going to finance this? You say 50 percent of

White: The way it's financed, according to the way it was worked out here in the legal division, is that the Export-Import Bank will finance the contract of purchase from this trading company.

H.M.Jr: That was Taylor's original idea, wasn't it?

Taylor: (Nods yes)

White: Yes. And that the company

Taylor: The way we had it was, you had the Surplus Commodities and all the other people in there in one place or another.

White: Except that Surplus Commodities doesn't appear in this because there isn't presumably going to be a surplus. The Surplus Commodities picture appeared when it was thought the Army and Navy would take over some of it, and they were going to hold it until the Army and Navy would take it.

Oliphant: But private industry is taking the place

H.M.Jr: Who's taking the place?

Oliphant: Private industry is really taking the place of Army and Navy.

White: And the collateral would be the notes of this company guaranteed by the Chinese Government, plus their

-7-

inventory and other assets, wherever located. Now, the State Department might have something to say about that, because that would mean that part of the collateral would be inventories in Hankow and elsewhere.

And they would pay \$110 for every ton they sold here, providing they sold it at 220 - half, in other words. They would pay on the original loan half of their proceeds.

H.M.Jr: You mean as they sold it we'd get half?

White: Yes, quarterly payments. Quarterly payments. So that if they were to deliver, let's assume, 25,000 tons the first year, half of the proceeds of that 25,000 tons would go as payment on the original extension of credit.

Taylor: How would that work, Harry? You mean you pay them - you pay them half in advance?

White: That's right.

Taylor: Oh. So that you - that means you don't get any payment at all.

White: Don't get any payment until they've sold the tung oil.

Taylor: I mean after they've sold the tung oil, the way you described it it doesn't add up.

White: You pay them 25 million dollars. You extend them credit. They get tung oil. They sell it to private producers. They get the \$220 a ton. That belongs to the A. C. Company or Chinese Company. They take 110 of that 220 to use it to pay back - to make payments on the notes which they hold of the 25 million, so that they get some proceeds from the sale.

Lochhead: Mr. Taylor, the original advance was not meant to be a hundred percent of their whole crop, but only 50 percent. Isn't that it?

Taylor: The original is 50. You do wash out that 50.

White: You wash out that 50 each quarter.

-8-

Taylor: You do in advance. It didn't sound that way.

White: Well, that's the way I meant it.

H.M.Jr: Well, of course, I don't - I take it you haven't cleared any of this with Export-Import Bank.

White: No, we haven't gone outside the Treasury. Some of the vaguer outlines have been presented to Mr. Chen, and he's got this.

H.M.Jr: Well, as far as these gentlemen are concerned tomorrow, these fellows - I thought we'd have them in here first, let them - as long as the Standard Oil crowd have been doing this, I thought I'd ask them what do they know about this, you see? They say they've been trying to tell us. And then we tell them what we have in mind, without going into any of this financing stuff, because we haven't cleared any of it. And then simply say, "If the Chinese Government were able to enter into a contract, which we would father or mother, and the total - all that tung oil would come to the United States, what could you people do to help move it?" Isn't that what it is?

Taylor: No, these are competitors.

H.M.Jr: No, no.

Taylor: Aren't they?

H.M.Jr: No, I'm not talking about them as users, but as far as the gathering and so on.

Taylor: If the Chinese Government undertakes to gather it all, why, then you don't want these other boys in.

Opponent: No, it isn't that way. White doesn't quite state it right. What you say ...

H.M.Jr: May I ask which boys you're talking about?

Taylor: Talking about the Standard Oil boys.

H.M.Jr: The Standard Oil boys. This is the picture, as I've

-9-

got it. Get me straight. What Mr. Chen said to me originally was that they've got this thing, the Chinese Government will collect it, but they have no way of moving it from the place of production to the seaboard, and if they could get some help to organize a transportation company to move this stuff, it would be very helpful, because that is something that they don't know.

And then he said, "Now for instance, if we could take gasoline up-country in these trucks, then these same trucks - tank trucks, if they were tank trucks, could take tung oil back. The only problem would be the question of cleaning them between each time."

So then I said, "Well, I know the Standard crowd, and I don't suppose anybody knows China better." He said, "That would be marvelous. If they would handle the transportation end, that would be marvelous."

In asking - I always feel frankness is the best - I said to Mr. Parker, "What other American interests are there in China besides yourself, because I want everybody represented."

"Well, you know Jimmy Moffett."

"Sure."

"He's the only other interest in China, and if you've got him and me, you've got everybody." So we're not playing - he said, "You've got everybody. If you have Jimmy Moffett come down, then everybody's represented."

As I understand it from Chen, there is no competition between these two groups. They divide the business, they don't compete in China.

Taylor: What I was worrying about: are they going to own the tung oil or are they simply acting as the transport agent?

H.M.Jr: Just the transport agent.

Taylor: Just the transport agent. The reason I'm being

-10-

H.M.Jr: Well, I'm away for three days and you (Oliphant) ask me to write a speech for Mr. Foley in 30 minutes; takes my breath away.

All these boys are going to do is organize a transportation company and these people will use them on up-country trip for gasoline. Down-country they'll take tung oil, which the Chinese Government is selling to American-Chinco.

Lochhead: Mr. Morgenthau, I spoke to Chen on Tuesday and I was rather interested in his ...

H.M.Jr: That would be a good name, wouldn't it: Chinco?

Lochhead: ... slant on this problem. I think he's looking at it as a little bit wider than just wood oil. He says he is reconciled to the loss of Hankow; just a question how many weeks it takes. He says, "If Hankow is cut off, we have already lost our ocean outlet, that's in the hands of the Japanese. Now they come in and take the railroads. I'm not fooling myself. Then China consists - what we have of China is an interior province. If we're going to live, have any connection with the outside world, we must organize some kind of a transportation system." He says, "We can talk about getting back the railroads or opening up the ports, but the fact remains we haven't got anything. And so," he said, "I'm interested in this tung oil transportation, but also from the broader belief that it's the only outlet, it's going to carry everything. Wouldn't only be tung oil, but any of our outlets, any of our exports, would have to be built up on this transportation system." And he says it's not only a question of transporting tung oil but he thinks they'll probably have to have a survey of that interior point by somebody - an American firm that knows the business.

H.M.Jr: Well, these two organizations - they can't get any better organizations to do it.

Lochhead: Right. And that was his point, that he's very much interested in transportation of other things besides wood oil.

H.M.Jr: You got the best brains in the country when you get these four companies.

-11-

White: Another thing he emphasized is

H.M.Jr: My God, if they don't know how to truck gasoline, nobody does, huh?

White: He's very eager that he doesn't make any arrangements in this country which he cannot - - which the Chinese Government cannot deliver and perform, because he regards this as an opening wedge or as a precedent for the establishment of this larger company which he hopes will, along with what you said, provide the channel for larger trade; and therefore he wants to canvass the whole situation before he commits himself to a program which you may feel in the future he has fallen down on.

Hanes: He's got that arranged - the Chinese Government has got it arranged for the collection of these nuts, and what are they going to use for money to pay for it?

White: They use local currency for that.

Oliphant: I'd like to speak on that just a minute.

H.M.Jr: They use tin.

Oliphant: About this possible competition. You do have to face it - we tend to oversimplify - because actually the production of this tung oil is in the hands of private - thousands of individuals and thousands of companies.

H.M.Jr: Wayne didn't mean that, did you?

Oliphant: No, I'm coming to his point. Now, instead of China undertaking to sell this tung oil to us - that isn't the way it's going to be set up at all. What China does - it enters into an agreement with this Chinco.

H.M.Jr: First thing you know, it's going to be Chinco. -

White: That's what it's going to be called. It's as good as down.

Oliphant: Now they promise Chinco to embargo the export of tung oil from China except for sale to Chinco - not for sale by the Chinese Government, but for sale by everybody to Chinco. So if Standard Oil does own some oil up

-12-

there, she doesn't care where she sells it if she can sell it to Chinco at 11½ or 12 cents a pound, you see?

H.M.Jr: Well look, I don't want to get into too many What I thought I would do is this. I wanted to know if anything had happened since I'd been away on this so I could explain to these two gentlemen tomorrow. I thought we'd have a little talk and then I'd turn them over to the Chinese and let them go in a room there and some of you fellows sit there, listen, let them have it out. If they want to talk to me again in the afternoon, I'll be available. But let Chen talk to them and tell them what he has in his mind.

White: They hope to be able to buy this large fleet of trucks which they will need with the funds which they may be able to get here. So there will be a very large order of trucks; they talk in terms of a thousand or two thousand trucks.

H.M.Jr: They may find that Standard Oil has got a lot of trucks that they're not able to use.

White: And they're very eager to use an American technical staff over there.

H.M.Jr: Well, that's all right.

Oliphant: I'd like in any of your talks with them for you to get - you won't have a chance to talk with them again before you see them, will you?

H.M.Jr: Yes, I thought I'd talk to K. P. Chen here. He's here.

Oliphant: I'd like to be sure we see the outline of what this is, the tentative plan. In this country we've got the big users and the middlemen in between, and both can have a very bad heartburn, can make a lot of trouble for us. Now, this plan contemplates that China agrees, as I said before, to embargo the export of tung oil to the United States except for sale to Chinco.

H.M.Jr: This isn't China.

-13-

Oliphant: What?

H.M.Jr: This is the Chinese.

Oliphant: The Chinese Government.

H.M.Jr: Just declare a Government monopoly.

Oliphant: No, it isn't.

H.M.Jr: It's a Government export

Oliphant: They don't own the tung oil, you see, and they refuse to allow anybody to sell it.

H.M.Jr: I don't like the embargo, I don't like the word "embargo." I don't like the word "embargo."

White: It's an export monopoly.

H.M.Jr: It's an export monopoly. Would you mind calling it that?

Oliphant: No. Quite a difference between an export monopoly and

White: He doesn't like the word "monopoly."

Oliphant: It's the difference between our owning this Treasury building and our not owning it. Now, they don't own the tung oil.

H.M.Jr: Well, it's an export ... It's a Government - the Government can have a monopoly.

Oliphant: But that would involve their taking it by - it's not going to happen at all.

H.M.Jr: Why worry about how they do it?

Oliphant: That's the point. Now, I'd like to go on from that point. Chino has this contract, so they're going to get from Chino all the tung oil that comes out of China. Now, they enter into contracts, Chino does, directly with the big paint manufacturers, and apportion to them the percentages they have had, say, during the last year.

-14-

H.M.Jr: That's Chinceo's business.

Oliphant: That's Chinceo's business, dealing with Sherwood-Williams. Now then, what about this middleman, W. R. Grace and the other big fellows, who can have the big heartburn and make a lot of trouble? They agree to employ those men and their regular channels of distribution, their tank cars, loading facilities, and so forth, but on payment commission.

H.M.Jr: On what?

Oliphant: Flat uniform commission.

H.M.Jr: Well, are the middlemen agreeable to that?

White: They haven't heard it yet, but the middlemen - Mr. Austin indicated they were considerably concerned and worried over the possibility they may be squeezed out by some Government monopoly.

H.M.Jr: Well, again, I'd have time to cross that bridge. Of course, I'll have to consult Thurman Arnold to make sure that we're all right on this thing.

Oliphant: We've been into that.

H.M.Jr: Is it all right?

Oliphant: (Nods yes)

H.M.Jr: But I want to say this, and I've been a little facetious but I want to be serious now: I have never invited any group of business men down here to consult with the Treasury as long as I've been here that they've ever been hurt by it, and that's why I can ask any business man to come down and he'll always come. And if you people have been consulting with these middlemen - I haven't, but I want to keep my reputation for fair dealing. I'm not implying that anybody isn't being fair. As a result of picking their brains I don't want to squeeze them out.

White: Mr. Oliphant was very insistent on that point, and I think that the plan takes care of them admirably, although it may not be as good as they have now. But they'll be taken care of.

-15-

Olipnant: Gives them room to talk it over with them at the proper time.

H.M.Jr: Well, I'd like to be there, because I have never invited any business men down and picked their brains and then in any way as a result of that that - that they in any way were injured.

White: But nothing has been said to them yet.

H.M.Jr: Well, before it's too late I just want to run up a red light.

Olipnant: Well, that's the reason - that's what I'm getting across to you now.

H.M.Jr: See? Because I went through the same thing with the cement people, if you remember, and I told them and I told Stettinius that as far as I was concerned, in the deal on cement, if he was serving a useful purpose there's no reason why he shouldn't continue. But I asked him whether, if there was a mill up the Hudson that wanted to ship cement for delivery alongside the dock where they're building a \$30,000,000 tunnel in New York, there's any reason why they should use a dealer. He said there wasn't any reason. - shipper. But I mean I satisfied him as to that. I mean that was the illustration we used, that if we had a \$30,000,000 tunnel on the Hudson, why shouldn't we be able to get barges coming down delivering that, where the dealer did nothing? I mean he wasn't entitled to his commission. And Stettinius agreed to that, so - he did, but his cement man didn't.

But I'm just using that, and I'm terribly careful - I mean I want to be - well, I don't have to say anything more.

White: Yes. Mr. Hanes thought that since they don't have the risk, they're saved a portion of the risk they undergo now, their commission could be flattened.

H.M.Jr: It's all right, but before we go too far - I don't want to be over-smart on the thing, because it isn't necessary. What we're trying to do is to help the Chinese, and we're not trying to change the distribution system of the paint and varnish trade.

-16-

Elliphant: Well now, that's where we began - to say that the thing we're trying to do is to do this without changing the distribution system; we don't want the Government to go into business any more than it has to: just let things flow through ordinary channels.

Taylor: The Government won't be in the business at all.

Elliphant: I went over this plan again to bring to your attention just the thing you're mentioning.

H.A.Jr: Fine. Swell. Delighted.

Elliphant: See? And don't you (Hanes) agree there's no other

Hanes: Oh, the feeling is splendid there. They're absolutely tickled to death with it and would be pleased if they could stabilize this market. Be very pleased.

H.A.Jr: Well, I'm ready to talk with you people tomorrow - have you present at 10:30, the people in the room now - to talk and outline it to these gentlemen without going into tonnage or dollars or anything; tomorrow it's just a question of transportation; and turn these boys over to the Chinese and let them grapple with it, then when they're ready come back and talk to us again. But all I want these two oil companies in the Far East to talk about is transportation. And then I'm particularly interested also to see how keen they are to do it.

White: There is some question, even in Chen's mind, as to their relations with Japan and so on.

H.A.Jr: Well - true - well, we'll give them a chance to talk about that. Now, is there anything else on this?

White: I thought I might communicate to you what Mr. Dye, who said he was talking to the Assistant Secretary of Commerce, wished to have communicated with respect to the import duty on flour which now exists. He said he's been following the situation.

H.A.Jr: Excuse me - import duty from which country to which?

White: Import duty on flour into China.

-17-

H.M.Jr: On American flour.

White: Well, it applies to all

H.M.Jr: And who is Dye?

White: Dye is an Assistant to the Secretary

Taylor: Director of the Bureau of Foreign and Domestic Commerce.

H.M.Jr: Go ahead.

White: He said he'd been following the situation very closely, and they're interested in seeing, if any negotiations are made, could the duty be reduced so as to permit American flour to go into China

H.M.Jr: And that's his message.

White: That's his message.

H.M.Jr: May I get a report, please, from our flour expert?

Haas: On that meeting?

H.M.Jr: Yes, sir.

Haas: Tapp called me up and said that as long as the Chinese were here they'd like to talk to them, make a little exploration and see if there is any possibility of exchanging wheat with some product that China produced, preferably some strategic material of which reserves might be built up in the United States. Sort of an offshoot from that committee that Peoples is serving on with some people over in Agriculture.

I talked to the Secretary about it, and so we had - I had them over in my office and Tapp came over, and Wilcox.

H.M.Jr: May I interrupt? I thought the thing to do was to keep the Chinese, so to speak, under our wing, not have them running all over these departments, so I - Tapp asked and I said to let them come over here, we'd have the Chinese here.

-18-

Haas:

So yesterday afternoon at 3:30 they came over and they reviewed these different products, went over tungsten, antimony, tung oil and silk and tea, and so on. And the Chinese explained that Tapp or Wilcox didn't have any definite thing in mind at all, and they got to tung oil and they showed a little interest in that, and Chen said, "A proposition with regard to tungoil is before the Treasury now." I didn't comment on it; neither did Tapp. We went off to another subject. But each of the questions which they asked about these different products - Chen said, "I am now securing information on it. I don't - can't answer your question. But after I get these data, come on in." I mean we could have them come together again.

So Tapp says, "Well, that's all I've got to say." He says, "By the way, I've got another question I'd like to raise." He said, "You're buying flour from Australia" - and he wanted to know what they could do if anything to increase the amount of American flour. It is very analogous to the question Dye raised.

H.H.Jr:

Well, refer Dye to Haas. Let Haas carry that on. Tell Dye to get in touch with George.

White:

Yes, I'll do that.

Haas:

Chen didn't give them very much hope on that. In fact, he wasn't interested in a thing like that. He was interested in getting some money to buy something with. Said he would also look into that. He's going to look into that one too.

So the meeting adjourned until Mr. Chen has some more information on the points which Tapp raised. But Tapp felt very well satisfied. They evidently knew little or nothing of the Chinese situation.

White:

Well, Mr. Chen came in to see me subsequent to that and he was a little concerned. He didn't quite understand whether - he said you said it was outside of the other arrangements, but he said it seemed to cover the same ground; so he said he was waiting for information because he didn't want to

-19-

H.M.Jr: Well, explain to him, if you can, Washington.

White: I said that "when the Secretary comes back that will be cleared up."

Haas: I don't - I explained to Chen not to get this confused

H.M.Jr: One of you boys explain it to him.

Now the other thing, a little piece about how Wallace feels.

Haas: Oh, on this question Tapp told me after the Chinese had left - he said since Wallace returned he was very much disturbed about the possibilities of selling wheat to China on credit, particularly this 70 million bushels, and he said also the more Wallace thought about it the more disturbed he became. And I asked him what features of it disturbed him the most, and he said - and he said that it would cause great reaction, unfavorable reaction, from the Argentine and Australia and Canada, and that was the element which disturbed him most.

The other thing he said - shall I tell about the Wall Street Journal?

H.M.Jr: I didn't get that far, but he - I mean just - this is all in the family - I just want to draw Harry's attention to a few things that I've learned in the last five years. I mean the shell game is easy.

Taylor: You don't mind if I have difficulty keeping that eye open, do you?

White: O.K.

H.M.Jr: All right, go ahead.

Haas: The other thing

H.M.Jr: What about the Wall Street Journal?

Haas: He said that Mr. Bryant - I don't know him - of the Wall Street Journal - reporter that maybe covers agriculture, maybe not; but anyway, he's a Wall

Street reporter - went over to see Tapp, or called him up, and said, "You know, there's a rumor around you're going to make a loan to China so they can buy American wheat," and Tapp said, "There's nothing to it."

And he asked Bryant where he got the information. He says, "That's the rumor around the State Department."

He said, "What do you mean around the State Department?" Well, Tapp said that's as definite as he would be.

But Tapp said, "I don't think he'd put anything in the paper, because I've always told the truth."

Taylor: That's been around town everywhere for three days now, and it finally came out under

H.M.Jr: Here's the U.P., 9:27 this morning.

"Informed sources say that China is negotiating for the purchase of huge quantities of surplus cotton and wheat held by the Federal Government and is seeking private credit here for purchase of war materials, according to the United Press.

"The Chinese hope to obtain loans from American banking interests to establish credit for purchase of much-needed supplies. The Chinese financial mission which recently arrived in this country reportedly is discussing with Treasury officials methods of financing wheat and cotton purchases.

"Treasury officials will not discuss the nature of the negotiation but they admit the conversations involve a broader program than that in effect between China and the United States in the past."

Which means that somebody decided they'd send up a trial balloon, that's all.

Haas: Well, Tapp felt greatly distressed over it. He said, "You know, if that thing gets out it will knock the bottom out of the wheat market." Well, it would have to get out in detail - to know there was 70 million bushels involved - to affect the market.

-21-

- H.M.Jr: It's just Washington. No use to get excited about it.
- Taylor: To add to that picture, Floyd Blair, National City Bank, down here - he came down here to find out about this, among other things, and he says that they've got their information from Shanghai, so it's
- H.M.Jr: Well, there's more than one way - I never played the game that way, and never will play it, as long as I'm here, that way. But you know, if we get a favorable reaction and people say, "Let's help China," maybe the State Department will be surprised.
- Lochnead: There's no doubt that stuff goes back, because there's other ones; there was Kung; Rogers, Bank of England; there was Lynch and Young, the two Americans - they're playing very hard, all of them, with all outside sources.
- H.M.Jr: Let me just - does that finish your story?
- Haas: Yes.
- H.M.Jr: Has he heard about the Russian barter - I mean not the Russian, the German barter?
- White: He has given us some material, one important portion of the material which relates to how much they've got outstanding. They haven't got - they said they've cabled for information and they've indicated some difficulty about getting the information. And there's a very peculiar cable here from Kwu - from one of those - who says that that information has gone forward from the Treasury and he may be able to get it for us. So probably it will come here. There's something a little funny about that aspect of it. But we haven't the information about it.
- H.M.Jr: Of course, the funniest thing of all - I get a great kick out of it - for some reason or other, I don't get why, General Chiang Kai-shek and Madame Chiang Kai-shek - first they told Buck and they told McHugh, this Navy lieutenant - I may have done a foolish thing by sending him a message of praise; you know, he lives right in the house with Madame Chiang Kai-shek; I guess

-22-

wherever they go he goes - part of the household of the Generalissimo, and he keeps pouring this stuff in all the time and I foolishly sent a word of "Thank you" through official channels, and they're asking, "What? Does he send you information?" and - but they keep sending me information that Ambassador Wang double-crossed me, and I don't know how he double-crossed me. Every time they - then he saw this Captain Carlson, Marine officer, who's been with the Eighth Route Army twice, and told him how Wang double-crossed me. And I'm getting kind of curious as to just what he did; I don't know.

But the three boys that are getting the stuff are Captain Carlson of the Marines, Lieutenant McHugh, and Buck. Those are the three boys that are getting the stuff, aren't they?

Lochhead: (Nods yes)

White: Carlson made only that one report.

H.M.Jr: Yes, but look at the report he did on the military.

White: I say that was that one report.

H.M.Jr: That was a magnificent report.

Well, supposing I see Chen now. Everybody know what everybody else did? All right. I'll have him come in - you all sit here - and tell him what I'm going to do and see if there's anything he wants to ask me about tomorrow. All right?

And I don't think at this particular stage there's any use of informing any other department that I can see right now, except that I thought I'd ask the State Department, so there would be no question, to have Hamilton here tomorrow morning at 10:30. I want him to sit here.

White: Yes, because there's an important question with regard to this tung oil. If American consumers have a monopoly, it means that British consumers and others will not be able to get any except through American sales.

-23-

H.M.Jr: To play safe, I'm going to have Hamilton sit here tomorrow at 10:30, listen to the whole thing. There's no question then. There's no question. If Feis wants to come, he can come. But I'll ask Hamilton; he's the head of the Far East.

Do you want to get them?

Lochhead: Right.

Haas: One thing I forgot - Tapp asked me if they could use some rice. I said, "What? Got rice too?"

H.M.Jr: Who's got rice?

Oliphant: We have - Texas.

Taylor: We have. I'll say we have.

(The Chinese come in)

H.M.Jr: Well, I took a little holiday.

Chen: I understand. You have good holiday?

H.M.Jr: Very good. And very good weather - wonderful weather.

Mr. Chen, I kept in touch with the office and they told me that our discussion with you about tung oil ...

Chen: Yes.

H.M.Jr: ... had progressed far enough that we could take up what you and I had talked about the first time, the question of transportation.

Chen: Yes.

H.M.Jr: And, having that in mind, I invited down here for tomorrow morning Mr. Parker, who is the head of the Standard Oil Vacuum Export Company, plus Mr. Moffett, who is the head of the Standard Oil of California and the Texas - those two, which, as I understand it, are the only American companies doing business - I mean those two companies.

Chen: Yes.

-24-

H.M.Jr: I was pleased to learn that the so-called - I think they call it Socony Vacuum - have already been doing a little experimenting in the transportation of tung oil.

Chen: Uh-huh.

H.M.Jr: They seem to know something about it.

So they're coming in at 10:30 and I wanted a little chance to talk to them first, and if you could be here maybe by a quarter of 11

Chen: All right.

H.M.Jr: And I thought I would explain to them simply this, that what the Chinese Government is interested in is, could some arrangement be worked out with these two oil companies - this is what I told them - to move oil up-country and bring back gas - bring back tung oil.

Chen: Yes.

H.M.Jr: Now, that's all I said to them. Now, this whole question of the bringing and the merchandising of it in this country - that doesn't concern them. But I explained to them that you wanted to talk to them about the transportation question of moving tung oil to the seaboard.

Chen: Yes.

H.M.Jr: Is that right?

Chen: That's correct.

H.M.Jr: And what I thought I would do, if it was agreeable to you

Chen: Very agreeable.

H.M.Jr: ... was to have a little talk here and then simply give you an office here in the Treasury and then you people can go in there and talk it over with them. And Mr. Haas and Mr. White can go with you.

-25-

Chen: Yes.

H.M.Jr: And then you can go into greater detail. Then if you want to see me in the afternoon, why, I'll be available again in the afternoon. But they're very glad to talk.

Chen: Yes.

H.M.Jr: Now, I see no reason why we can't talk to them about it.

Chen: Yes.

H.M.Jr: And inasmuch as I have invited them to come down here and told them that it was confidential, I'm quite sure that they will not give out any information.....

Chen: Yes.

H.M.Jr: to anybody. So it's just - I mean you could give it to them much better about what you have in mind and what country you're going to cover. You haven't got any maps prepared to show them approximately ...

Chen: We have not a map just for this, but we can make a sketch tonight.

H.M.Jr: Could you?

Chen: Yes, we can do that.

H.M.Jr: Just showing where, approximately, you collect the tung oil, and then the possible routes that you'd like to use. If you could make two - and if Mr. Haas's people could help you - he has artists who can draw this if you want them to. I mean our drafting room - we have a big drafting room here, and his people - if you make one, he could copy it a dozen times. If you give him one - if you give him one - if you get it here the first thing tomorrow morning, why, you (Haas) could have it copied, couldn't you?

Haas: Oh yes, we can make duplicates of them.

H.M.Jr: If you just give us one, Mr. Haas can copy it.

Chen: Yes, we can do that.

H.M.Jr: If you get it here early enough.

Chen: Yes, we can.

H.M.Jr: But the thing is to show where the tung oil is and then what the possible routes would be.

Chen: Yes, yes.

H.M.Jr: Where you want them to transport it, you see.

Chen: Yes, yes. They have

H.M.Jr: How does that sound to you? All right?

Chen: That's very good.

H.M.Jr: And that's, as I understand - excuse me - as I understand, that represents everybody of Americans who are in China - those two people; and these are the head people.

Chen: I was going to say they have a very good transportation system, Standard Oil Company. Why, before the war they have large fleet of tank boat steamers and also they have tank cars on the Government railways; they have a very good system of transportation. Now, I am sure these two gentlemen will be able to give us advice and we shall feel free to ask for the advice. And we want to make it as efficient as possible, because once we have that transportation there it is not only a question of moving gasoline and tung oil for export, but that will give us a kind of service, a transportation service, after the fall of Hankow which is most important for us to have. So I'm sure this will give us great help, their suggestions and ideas, and once we've got that organized and properly managed we'll have a free flow of these commodities.

H.M.Jr: Well, it's very important, isn't it?

Chen: We have nothing just now, we've got nothing.

H.M.Jr: Well, I don't know anybody better

Chen: Oh, they're the best; this Standard Oil Company is the best people.

-27-

H.M.Jr: And the Texas.

Chen: Texas, yes. They have tank cars and tanks for storage of gasoline and other fuel oils. And this gasoline and the fuel oils will also be required for our need - great needs.

H.M.Jr: Now, is there anything else today besides that that you'd like to tell me about? Anything else?

Chen: I've received a telegram from Dr. Kung. I'd like to present it to you.

H.M.Jr: Please.

(Chen hands attached telegram
to H.M.Jr)

Thank you. Sit down.

(Reads in silence)

Is this for me?

Chen: For you, yes.

H.M.Jr: This is for me.

Well, on this wheat loan we're working very hard, and the fact that I've been away - the people in the Treasury work even when I'm gone. At least they tell me they do anyway; I don't know.

Chen: I appreciate it.

H.M.Jr: They tell me they work. And we're having some difficulties of our own. And somebody's given it out now. But we're going ahead just as fast as we can. But it's not going to be so easy. But I explained to you about it. But we'll keep this thing moving. Now, we'll do this thing about the tung oil and we'll keep working on the wheat. And when the President gets back Monday - you see, everybody has just been all played out; we've had this question of whether we would or wouldn't have a World War in Europe, as you know, and it's ... But I understand our people here have helped in working out the question of distribution of tung oil in this country.

-28-

Chen: Yes, sir.

H.M.Jr: And that's going further along.

Now, is anybody talking to Mr. Chen - this other group that wants - this question of barter on any of these - anything more on tungsten or any - let's see, there was another "t".

Lochhead: Tungsten?

White: Antimony?

H.M.Jr: No.

White: Tin.

H.M.Jr: Tin, yes. Any.... ?

Chen: We had a discussion with Mr. Haas yesterday, and for fear that the figures for tin and tungsten are not sufficient we have cabled again last night. The question is how much we can deliver, what is the available stock we have on hand just now.

H.M.Jr: I see.

Chen: And we're waiting for those figures.

H.M.Jr: Oh. And I understand the figures on the German deal - we'll get that too, what you did with the Germans, the barter with the Germans.

Chen: I have something - a memorandum on the German barter.

H.M.Jr: Do you (White) have that?

White: Yes, but there were some more figures which he was going to get which will complete the statement. As it is, we only have some of the information.

H.M.Jr: All right. What else is there?

Chen: Nothing.

H.M.Jr: Anybody else want to - anybody?

Hanes: No.

-29-

H.M.Jr: Wayne?

Taylor: (Nods nothing)

H.M.Jr: Well, it's always a pleasure to see you.

(Chinese leave)

I want to read you what he handed me.

"Dated Chungking, October 1, 1938.

"From Dr. H. H. Kung to Mr. K. P. Chen

"Referring to your telegram September 29 glad United States Government willing consider wheat loan. Stop. Please accept and tender my sincere appreciation to Secretary Morgenthau and other officials for their timely help. Stop. Wish you discuss best means effecting quick sales in order to convert into cash."

TELEGRAM RECEIVED FROM CHUNGKING

Dated Chungking, Oct.1, 1938 1.10 AM
Recd. Wash.D.C., Sept.30, 1938

From
Dr. H.H.Kung

to
Mr. K.P.Chen

Referring to your telegram Sept.29 glad U.S.Government
willing consider wheat loan stop Please accept and
tender my sincere appreciation to Secretary Morgenthau
and other officials for their timely help stop Wish
you discuss best means effecting quick sales in order
to convert into cash.

KUNG

Thursday
October 6, 1938
3:53 p.m.

207

HMJr: Hello.

Operator: Mr. Hamilton will be there in about five minutes. His assistant is there now if you'd like him.

HMJr: No. I only want Hamilton.

O: All right.

HMJr: Thank you.

O: Do you want to speak to him?

HMJr: When he comes in I want to talk to him.

O: All right.

4:08 p.m.

O: Go ahead.

HMJr: Hello.

Maxwell M.
Hamilton: Hello. Hamilton speaking, Mr. Secretary.

HMJr: How are you?

H: I've been down meeting the new Chinese Ambassador. That's -

HMJr: What?

H: I've been down at the train meeting the new Chinese Ambassador.

HMJr: Oh. Good.

H: Who just arrived this afternoon.

HMJr: Did you know him before?

H: Oh yes, I've known him for a number of years.

HMJr: Good. Ah - what I'm calling you up about is this. I'm having a representative of the Standard Oil Vacuum here tomorrow, Mr. Parker. -

- 2 -

H: Oh yes.

HMJr: And Mr. Jimmy Moffett on the Texas Standard of California to meet with K. P. Chen - Hello.

H: Yes.

HMJr: The idea being that they've raised the question that - ah - in case they set up a new organization to market tung oil, how are they going to transport it, see?

H: Yes.

HMJr: Now, I'd like very much to have you here.

H: Uh huh.

HMJr: Hello?

H: Yes.

HMJr: At ten-thirty tomorrow morning.

H: Ten-thirty tomorrow morning?

HMJr: But, I want to ask you, in talking with these people who I hardly know at all - ah - for the sake of the Chinese can we be fairly frank with them or will they feel that they'll have to go and tell the Japanese about it?

H: You mean these Americans?

HMJr: Yeah.

H: Well -

HMJr: I mean Parker and Jimmy Moffett.

H: Ah - Parker I think would - I know him; I don't know Mr. Moffett.

HMJr: Well, I know Moffett and I don't know Parker.

H: I think Parker would play ball all right with us.

HMJr: He would?

- 3 -

H: Yes.

HMJr: Uh huh.

H: Moffett I don't know.

HMJr: Well, the point is, ah - ah - what they're talking about is - they have no transportation system, you see?

H: Yes.

HMJr: After they lose Hangkow.

H: Yes.

HMJr: Now the question is can they move oil up in these trucks and move tung oil down.

H: Yes.

HMJr: And I want to simply ask these people and introduce them to Chen and then turn them - let them go and talk things over.

H: Yes.

HMJr: And see whether they can help the Chinese organize this transportation system.

H: Well, did you think it would really be advisable that I be there?

HMJr: Well, that - I want to tell you what I'm doing and that's up to you.

H: Uh huh. Well let me think it over and consult with maybe Mr. Hornbeck and then I'll call your Secretary back if it - if -

HMJr: You call her back tomorrow morning.

H: Yes.

HMJr: Mrs. Klotz.

H: And if - if I'm not there you'll understand why - and that we do appreciate your keeping us informed and giving us an opportunity to be there.

HMJr: Well, why shouldn't you be there?

H: Well, sometimes on these - we've been in a very good position. These - these news reporters and people who come in and make inquiries of us in reference to what's going on over there and we've just consistently said that the Treasury Department - any comments are to be made by the Treasury Department.

HMJr: Well now, look, if you're going to talk to somebody why don't you talk - why don't - why don't I tell Mr. Welles that I'm asking you this?

H: Oh, that isn't - that isn't - I don't think that - I think that's all right. I'll speak to Herbert Feis and Stanley Hornbeck -

HMJr: Well, if you're going to - maybe I'd better tell Mr. Welles that I've asked you and then there won't be any question. But - I think maybe I'd better; he's acting Secretary.

H: Yes, yes; surely.

HMJr: Well, I think I'll call him up and tell him and then ah - maybe he can send for you and decide.

H: Yes. All right. Well, thank you, Mr. Secretary.

HMJr: All right.

H: Thank you.

Thursday
October 6, 1938
4:14 p.m.

HMJr: Hello.

Operator: Summer Welles.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Summer Welles: Henry, how are you?

HMJr: I'm fine. How are you?

W: I'm fine, thanks.

HMJr: I hope to see you soon.

W: I certainly hope so. I had hoped to get a glimpse of you on the other side but you were leaving just as I was arriving.

HMJr: Yeah - I think we missed each other. Summer, I just called up Moffat of - not Moffat, Hamilton of the Far East Division and then after I did it I thought I'd better tell you. I should have told you in the first place but there's still plenty of time. At ten-thirty tomorrow morning I've got K. P. Chen here and I asked down Jimmy Moffet of the Texas - Standard Oil of California -

W: Yes.

HMJr: And Parker of the Socony Vac -

W: Yes.

HMJr: To discuss with Chen the question of organizing a transportation system in China.

W: Yes

HMJr: Because we're working with them to get - to buy - help them sell their tung oil, you see?

W: Yes.

- 2 -

HMJr: - which is easy, but the difficulty is to get it out.

W: Yes.

HMJr: Then I thought - ah - if in doing that the State Department would like to possibly know what I was doing so I called up Hamilton and asked him to sit in.

W: Yes.

HMJr: Well, he had some doubts. So I said, "Well now, if you've got any doubts I'm going to talk to Summer Welles and let him decide whether you should or shouldn't. My only motive was, like anything that I do in a foreign field, I want you people to know what I'm doing.

W: I appreciate that fully.

HMJr: And you people can decide whether you do or don't want a representative here.

W: Thanks a lot, Henry, for calling me up.

HMJr: See?

W: I'll send for him and find out what his feelings are.

HMJr: Has he time to - ah - but the point is, you see we've just got to the point - they're figuring after Hangkow what are they going to do.

W: Yes.

HMJr: See?

W: Yeah.

HMJr: And they have - they've been very very honest, very very frank - they have no transportation system.

W: Yes.

HMJr: And they said they've got to buy oil and why couldn't these people transport the oil up and in these same tank cars and motor trucks bring back tung oil.

W: Yeah.

HMJr: So I'm simply bringing these people down and I'm going to put them in a room and let them talk it over.

W: All right. Thanks a lot. I'll send for him and find out - and if there's anything that seems to be of importance I'll speak to you again personally.

HMJr: Right.

W: I want very much to see you. I was planning to ask if I could come over today but I'm so tied up with -

HMJr: Well -

W: - engagements today and tomorrow that I can't do it. Are you going away for the weekend?

HMJr: I am not.

W: Well, perhaps Saturday morning if you're going to be on hand I might have a chance to come over if you're free.

HMJr: Well, I - well, I don't think I'll come in Saturday morning.

W: I see.

HMJr: But - ah - ah -

W: Well, I'll get in touch with your office sometime tomorrow and find out what your plans are.

HMJr: All right. I'm not very busy tomorrow afternoon because there's no cabinet.

W: Yeah. All right. Thanks very much.

HMJr: O. K.

W: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

214

INTER OFFICE COMMUNICATION

DATE October 6, 1938

TO Secretary Morgenthau
FROM Mr. White

Subject: Chronology of Action Relating to Discrimination by Germany against the Commerce of the United States.

1. The United States had a ten-year treaty with Germany beginning in October 1925 which granted Germany most-favored-nation treatment in respect to customs duties on German products imported into the United States.

2. In October 1934, which, according to the terms of the treaty of 1925, was the earliest opportunity, Germany denounced its most-favored-nation treaty with the United States.

3. In November 1934, the Trade Agreement Committee of this Government recognized that the German system of exchange control devices inaugurated as of September 24, 1934 represented discrimination against United States trade.

4. On July 8, 1935 the President addressed a letter to the Secretary of the Treasury informing him that the duties proclaimed under the Trade Agreement Act would not be extended to Germany thirty days after the date on which this country would cease to be bound by the provisions of a most-favored-nation treaty. This action was taken under the authority of the Trade Agreements Act (Section 350 of the Tariff Act) which provided that trade agreement rates should not be made available to third countries which discriminate against the commerce of the United States.

5. On October 15, 1935, with the expiration of the United States-German most-favored-nation treaty, a Treasury Decision became effective in which the reduced rates of duties provided in trade agreements were not extended to products of Germany.

Secretary Morgenthau - 2

6. Each time subsequently that a new trade agreement was proclaimed (15 such proclamations have been issued subsequent to October 15, 1935, the latest of which was on September 23, 1938 - the Ecuador agreement) the proclaimed rates were specifically not extended to Germany on the grounds that Germany discriminates against the commerce of the United States.

The pertinent clause appearing in the press release issued is as follows: "Because I find as a fact that the treatment of American commerce by Germany is discriminatory, I direct that such proclaimed duties shall not be applied to products of Germany (including Austria)."

7. On Aug. 31st you presented to the President a statement in which you indicated that it was possible for the President to impose additional duties on the products of Germany under Section 338 of the Tariff Act of 1930.

(A copy of that statement is appended. The original is in Mr. Oliphant's safe. Evidently you did not leave it with the President.)

C
O
P
YTHE SECRETARY OF THE TREASURY
WASHINGTONMEMORANDUM FOR THE PRESIDENT:

You can forthwith proclaim the imposition of additional duties of 50% ad valorem on the products of Germany and on articles imported in German vessels. These additional duties would go into effect in thirty days. You have already repeatedly proclaimed the fact on which this act would rest. The law and the situation are as follows:

Section 338 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1338) provides that, whenever the President shall find as a fact that any foreign country discriminates against the commerce of the United States, he shall, when he finds that the public interest will be served thereby, impose additional duties not to exceed 50% ad valorem, or its equivalent, on any products of such discriminating country or on articles imported in a vessel of such country. Such additional duties will be applied thirty days after the date of the proclamation.

If the foreign discrimination continues after the issuance of a proclamation imposing additional duties, the President may issue a further proclamation prohibiting the importation after thirty days from the date of the proclamation of products of the discriminating country or articles imported in its vessels.

The Trade Agreements Act of 1934 (U.S.C. title 19, sec. 1351) provides that rates of duty established pursuant to trade agreements shall apply to products of all foreign countries, but that the President may suspend their application to the products of any country because of

- 2 -

its discriminatory treatment of American commerce. Pursuant to this provision of law, you repeatedly advised me that you found as a fact that Germany discriminates against the commerce of the United States, and that the trade-agreement rates, therefore, should be applied to the products of Germany. Such repeated advice was in letters dated October 7, December 3, and December 30, 1935; January 13, February 3, April 20, May 18, September 3, and October 5, 1936; May 3 and July 6, 1937; and March 15, 1938.

Under present conditions, it would be competent for you to determine it to be in the public interest, in view of the already ascertained discriminatory treatment of American commerce by Germany, to impose the additional duties provided for in section 338 of the Tariff Act of 1930 mentioned above.

Memorandum of Luncheon Conference

Office of the Secretary, 1 p.m., October 7, 1938.

Present: Secretary Morgenthau
Mr. Delano
Dr. Merriam
Mr. Rummel
Mr. D. W. Bell
Mr. Harry White
Mr. McReynolds

Secretary Morgenthau stated that the President had turned over to him a letter of August 12th, 1938, he had received from Mr. Delano, as Chairman of the National Resources Committee, and the accompanying memorandum proposing a Fiscal and Monetary Advisory Board. The Secretary stated that pursuant to the President's instructions to discuss the matter with him, he had attempted on several occasions to do so but up to the present time had been unable to get the President to give the matter attention.

The Secretary proposed that in lieu of the formal creation of such a Board at the present time, he would be glad to undertake, if the President be willing, to call in for consultation and advice, informally, from time to time during the period between now and January, the persons suggested in Mr. Delano's memorandum as members of the proposed Fiscal and Monetary Advisory Board, with the exception of the Chairman of the Securities & Exchange Commission, who should be left out of the group for the present, and with the understanding that the representative of the National Resources Committee would be selected from the members of the Advisory Committee of the National Resources Committee. Mr. Delano, Dr. Merriam and Mr. Rummel all three agreed that every immediate purpose had in mind by them when they suggested the creation of the Board in question would be served by following the Secretary's suggestion. It was understood that the Secretary would discuss the matter with the President and if agreeable to him, the plan as outlined would be carried out.

Some discussion was carried on, particularly between the Secretary and Dr. Merriam, with respect to general problems of reorganization. The Secretary called to Dr. Merriam's attention the obvious desirability of consolidating and standardizing the function of examining banks and financial agencies in so far as such examination is made by the Federal government. He submitted as an illustration the attached memorandum showing that such examining functions are now carried out under five different jurisdictions.

O O o e O O

10-7

Summary of Government Agencies
making Bank Examinations

219

(Figures based on actual 1938 expenditures)

Agency	No. of Examin- ations per yr.	Personnel		Other Cost	Total Cost	Salaries of Chief and Assistant Chief	
		No.	Cost				
Farm Credit Adminis- tration ^a	7,343	234	671,308	222,278	893,586	Chief Asst. (2)	8,500 6,300
Federal Deposit Insur- ance Corporation	7,986	590	1,462,301	619,974	2,082,275	Chief Supervisors-12-	9,500 7,840
Home Loan Bank Board Home Loan Banks	24	13	40,860	13,000	57,860	Chief Asst.	6,000 —
Building and Loan Associations	2,109	193	443,020	180,000	623,020	Chief Asst.	7,500 4,600
Comptroller of the Currency	10,642	815	2,222,456	851,296	3,073,752	Chief Asst. (11)	15,000 14,000

78,104

1,845

4,839,945

1,886,548

6,729,493

Includes examination of 2,225 Federal Credit Unions at estimated yearly cost of \$86,012.25 and miscellaneous examinations of non-banking activities of \$30,244.32.

THE WHITE HOUSE
WASHINGTON

Hyde Park, N. Y.,
August 20, 1938.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

RECEIVED DEPARTMENT OF THE TREASURY

AUG 22 1938

SECRETARY OF THE TREASURY
OFFICE

NATIONAL RESOURCES COMMITTEE
NORTH INTERIOR BUILDING
WASHINGTON

August 12, 1938.

The President

The White House.

My dear Mr. President:

In accordance with your request of Dr. Charles E. Merriam for a statement concerning the Proposed Fiscal Advisory Board, our Advisory Committee has reviewed all known suggestions for modification of our proposal or for alternative procedures. The attached brief summary of our proposal, modified in the light of this review of the situation, renews our recommendation for the early establishment of a Fiscal Advisory Board.

Respectfully submitted,

For the Advisory Committee



Frederic A. Delano
Chairman.

Enclosures.

CONFIDENTIAL

August 10, 1938.

A FISCAL AND MONETARY ADVISORY BOARD

A Fiscal and Monetary Advisory Board is proposed to report directly to the President and to advise with him on fiscal and monetary policy. The membership of the Board should be as follows:

The Secretary of the Treasury, who shall serve as
Chairman.

The Chairman of the Board of Governors of the
Federal Reserve System.

The Director of the Bureau of the Budget.

The Chairman of the Securities and Exchange Commission.

A representative of the Advisory Committee of the
National Resources Committee.

No spending agencies (other than the Treasury Department) should be represented directly on the Board, so that their interests will not weigh, or be supposed to weigh, too heavily in the formulation of over-all fiscal policies. The requirements of the spending agencies should be presented to the Board by the Director of the Budget. The Board would consult with other agencies of the Government whenever its discussions involve their activities or interests.

Purpose of the Board

Developments of recent years have shown the necessity of coordinating Federal fiscal and monetary policies, the formulation of which is placed by law and Executive Order in a number of separate agencies, some of which have been set up as independent administrative establishments. Creation of such a Fiscal and Monetary Advisory Board will provide a formal agency for accomplishing this purpose and for performing functions of planning and timing Federal fiscal and monetary programs which are either performed informally at the present time or go by default owing to the lack of formal machinery. It will give the President a council wherein the responsibilities of the executive branch of the Government for determining fiscal and monetary policy can be weighed in terms of existing situations and be exercised consistently and to the best advantage of the Nation. The creation of the Board will be a long step forward in the promotion of confidence in the Federal Government's financial policies. The people will feel that

their money is being used as effectively and advisedly as possible to increase the national income. Business men will see in the Board a systematic and considered effort to adjust Federal financial policies to business conditions.

Agencies Formulating Fiscal and Monetary Policy

1. The Treasury Department

The Treasury Department is charged with the preparation of plans for the improvement and management of the revenue and the support of the public credit. In its formulation of tax proposals, borrowing policies, supervision over national banks, control over the national currency and its stewardship of public funds, it makes decisions which are of vital importance in the determination of national monetary policies, the preparation of the Federal budget, the regulation of the investment and money market, and the making of plans for improving the public welfare. The Treasury also collects current information concerning Federal income and expenditures.

2. The Board of Governors of the Federal Reserve System

By fixing the discount rate, changing reserve requirements, participating in the determination of open market policy, regulating margins on securities exchanges, and controlling the interest rate on time and savings deposits in member banks, the Board of Governors of the Federal Reserve System plays a role in the determination of national monetary policy as great as that of the Treasury in national fiscal policy. It is extremely important that these two major financial policies of the Administration be closely coordinated. Unlike the Treasury Department, the Board has been set up by Congress as an independent agency. This makes formal machinery for securing coordination within the Administration essential and desirable.

3. Bureau of the Budget

As an aid to the President in formulating and planning the annual budget for all Federal expenditures, the Bureau of the

Budget possesses an intimate knowledge of the comparative spending requirements and facilities of the departments and agencies which is essential to the determination of fiscal policy. Its collaboration is most important in the proper timing and allocation of public expenditures. It knows the minimum governmental expenditure requirements, where expenditures can be most advantageously reduced or increased and which agencies are most suited to execute spending programs. By Executive Order, it has the authority formerly vested in the heads of departments to make, waive and modify apportionments of appropriations, a device which can be used effectively for the purpose of timing expenditures.

4. The Securities and Exchange Commission

The Securities and Exchange Commission regulates the registration of and transactions in securities, which are the pulse of the capital market. Its rules and regulations for market

operations have an important influence on monetary conditions. Its policy in making these rules and regulations is a vital element of the Federal monetary program and it is compelled to take a comprehensive view of that program in formulating this policy. The information which it obtains concerning private investments and the status of the capital market makes its advice of great value to the Administration in the determination of fiscal and monetary policy. Like the Board of Governors of the Federal Reserve System, it is an independent agency, whose policies can be most effectively coordinated with those of the Administration through the establishment of formal machinery for that purpose.

5. The Advisory Committee of the National Resources Committee

The National Resources Committee was established by Executive Order to prepare and make available to the President plans for the development of our national resources, that is, both

human and natural resources. As the central planning agency for the Federal Government, its activities are related to the fiscal and monetary policies of the Administration. The planning of public works, the development of land and water programs, the extension of the social services, the plans for improving education, health and living standards, all have their repercussions on the Government's fiscal and financial policies. In addition, they influence private business activity. The basic purpose of the National Resources Committee's work is to develop studies and plans for high living standards. Incidentally, the Committee's methods of operation bring it into close contact with the relationships between various Government departments.

Duties of the Fiscal and Monetary Advisory Board

The duties of the Board would be to provide the Administration with a continuous review and formulation of policy for the Federal fiscal and monetary program in its relation to the trends

of business activity and national income. It would obtain current information as to the amount and character of public expenditures, the sources of Government income, the volume of private investment and savings, and the additions to buying power resulting from public spending. On the basis of this information the Board would formulate current fiscal policies, serve the President in an advisory capacity in determining when to recommend that public expenditures should be expanded and when contracted in order to promote sustained business activity, assist the President and the agencies represented in regulating the timing and coordination of the fiscal and monetary program, and bring to bear broader economic considerations in the formulation of specific tax policies. The Board would be advisory only and would have no power to carry its recommendations into effect, which would be accomplished by the action of the President and of the agencies represented. Consultation and discussion between the various agencies responsible for fiscal and monetary policy

would clarify opinions and reconcile differences at a level below the Chief Executive. Thus the Board would be able to suggest recommendations both as to executive policy and as to suggestions to be made to Congress from time to time.

The Board's Staff

For the successful operation of the Board, it is essential that it be provided with a technical committee, a secretary and a small staff. The technical committee would be established by the Board and serve also as a working liaison agent with the National Resources Committee. It would consist of the technical advisers to the heads of the agencies represented on the Board and officials or individuals of similar qualifications. The secretary would be a competent technician who would act as secretary to the Board and direct the work of the staff. He might be paid from the funds of the National Resources Committee. As far as possible the staff of the Board would be assigned on a full-time or part-time basis

by the agencies represented on the Board, their work to be done in their own agencies. Additional staff assistance that could not be furnished in this manner would be provided from special funds.

Such a Board is particularly important at the present moment although its continuing activity should not be minimized. To secure proper timing of present activities calls for constant watchfulness. If full benefit is to be secured from present expanded activities, the Government's taxation and spending policies must be subjected to regular analysis. Thus Government can take the lead in laying the basis for a program for the care of human need.

GROUP MEETING

October 7, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Hanes
Mr. White (briefly)
Mr. Gibbons
Mr. Upham
Mr. Lochhead
Mr. McReynolds
Mrs. Klotz

(Mr. White speaks to H.M.Jr. and starts to leave.)

H.M.Jr: Listen, wait a second, young fellow; I got a call here from Davenport, of Fortune. What should I say?

Gaston: He talked to me this morning.

H.M.Jr: Yes.

Gaston: He wants to talk to Harry White, Archie Lochhead, and myself today; I thought probably we'd better have a little conference ourselves, on it.

H.M.Jr: You mean before you see me?

Gaston: Before we see him.

H.M.Jr: He called yesterday. I think you can handle that, can't you?

Gaston: I think so, yes; yes.

H.M.Jr: What?

Gaston: I think so.

H.M.Jr: I mean, does he want to talk to the three of you on the phone?

- 2 -

Gaston: No, no; he's here; he's in town.

H.M.Jr: I could see him Saturday, if you people wanted me to, with you three people. So you can be excused, Harry.

(Mr. White leaves.)

Gaston: But not today.

H.M.Jr: Well, not this forenoon.

Gaston: Well, I'll check with you this afternoon.

H.M.Jr: What's on your mind, Herman?

(Mr. Gibbons comes in.)

H.M.Jr: Hello, Steve.

Gibbons: Good morning.

H.M.Jr: Huh?

Oliphant: Nothing.

H.M.Jr: Huh? Herbert?

Gaston: A story about the Comptroller's Office - a little piece of it in the Herald-Tribune, and more of it in the Washington Herald - U. P. copyright, - but it's nothing to cause uneasiness. It's from the point of view of those who think that the Comptroller's Office is a wholly independent agency.

H.M.J: Well, I had the pleasure of calling up Cy and keeping him from sleeping last night, and telling him all about it.

Upham: I slept very soundly.

H.M.Jr: (Laughs) What? All right.

McReynolds: Not during the conference?

Upham: No, no; not in there.

H.M.Jr: All right, what else?

Gaston: I haven't anything else.

H.M.Jr: I hope they take me up on the Hill and ask me all about it; it will be swell.

Incidentally, Mac, just for my information, could you write me a little memo about the visit of Mr. Magruder to this office, and who he saw, and everything else? I never asked any questions - I mean, who he saw and who passed on his speech and who told him it was all right to give it - just so, when I go up on the Senate (talking low to Mr. McReynolds.)

McReynolds: With the help of Mr. Gibbons and Mr. Gaston, he got the story. Primarily his conference was with Gaston; he did come to see me first, and I took him in to see Gaston.

H.M.Jr: Just let's have a little - just one time he was here?

McReynolds: Just one.

H.M.Jr: Supposing the three of you give me a memorandum, say Monday, will you, so when I go up on the Hill I will

Gibbons: Yeah.

H.M.Jr: I didn't let you down so far.

Gibbons: Well, that's

H.M.Jr: While it's fresh, I'll have to go up on the Hill.

Gibbons: We didn't go beyond your five-eighteen.

H.M.Jr: You saw what they did this morning, in the paper? I never asked - I knew he saw you and Gaston; I didn't let my two politicians down.

Oliphant: I think it's another move he made.

- 4 -

Gibbons: You think there is another move?

Oliphant: (Inaudible - low.)

H.M.Jr: Well, all right, let's - give me something on Monday. I don't want to say anything, but I'd like to know what happened in the office.

McReynolds: Herman wants to take the offensive.

Oliphant: (Words jumbled.) - No, I think it's whatever he makes of it - and turn the whole thing around.

H.M.Jr: I think - all right. Well, any way, anybody that's got any ideas, bring them to me Monday, because Were you in on this, Wayne?

Taylor: (Nods "No.")

Gibbons: No, Wayne wasn't.

H.M.Jr: All right. O. K. Well, it's all a family affair; we're all together.

Gibbons: As a matter of fact, I think Mr. Magruder wrote a letter to Senator Sheppard, and practically told him what was done; how he called on me and Mr. Gaston. I think he gave it to him.

H.M.Jr: Well, it's just to get our stuff ready; that's all.

Oliphant: Well, will we have a meeting on Monday?

H.M.Jr: Yeah. Meet before then. Or Tuesday - Monday or Tuesday; you fellows advise Mr. Magruder and me. Mr. Oliphant want to get in on it as a Marylander?

Oliphant: (Nods "Yes.")

H.M.Jr: Fine. Give me something Monday or Tuesday.

Oliphant: Well, I don't like to take this thing laying down; I don't think it's necessary.

H.M.Jr: O. K.

Gibbons: I'd like to get your ideas, Herman.

H.M.Jr: All right, you are declared in. What else?

Oliphant: Not a thing in the world.

H.M.Jr: All right.

Oliphant: Except I want to know when Foley's coming back.

H.M.Jr: Ed Foley, coming back? Coming back? Where is he?

Oliphant: Ed Foley is in San Francisco, or Los Angeles.

H.M.Jr: Oh, we'll come around to that; you mean Ol- - Gas- - Upham's assistant? All right; O. K.

George, you look sort of satisfied with yourself; you got anything to do?

Haas: Plenty.

H.M.Jr: You look so damned healthy these days, George.

Haas: I hope I can stay that way. I have the new set of balloon charts; I'll have them Monday with the October figures on them, and three months' actual results.

H.M.Jr: You are coming in on the ten thirty meeting.

Haas: You want me to bring those in then?

H.M.Jr: Yeah, bring those in then, because these fellows won't have anything then, so you'll have to have something. (To Mr. Hanes:) Am I wrong?

Hanes: You are wrong as far as I am concerned.

H.M.Jr: You got a tax program?

Hanes: I won't be here.

H.M.Jr: Monday?

Hanes: Oh Monday! I thought you meant today; I'll be here.

Taylor: It will be a half hour meeting?

H.M.Jr: No, an hour and a half meeting. You're declared in, Mr. Taylor.

Taylor: Yes sir.

Haas: In those figures you asked for yesterday, on Maryland's delivery - New York City - you asked for that ...

H.M.Jr: You got them?

Haas: No, I don't have them, and it may be - I may not be able to make the grade. Those three hundred stores - they are going to have to make separate compilations, the Federal Reserve tells me, on it, and they think they will have it by this noon, but if you are planning specifically on anything

H.M.Jr: How about it this afternoon?

Haas: I've got them working dead-heat to get them by noon.

H.M.Jr: I said at noon, I'd like to have them; if I can have them this afternoon What's the trouble? They don't do it on a daily basis?

Haas: No, they don't do it on a daily basis; they will have to compile them separately. They wondered what it meant; it's not comparable to anything they've done before.

H.M.Jr: I am not interested in any other way; I am interested in this way. I want to see, in three hundred stores, what's happening, day by day; that's all.

Haas: I told them what you wanted; it may be in by noon. The other thing

H.M.Jr: That housing thing?

Haas: Yeah. At eleven thirty.

H.M.Jr: Is that at eleven thirty?

Haas: That's what you said.

H.M.Jr: Good. Anything else?

Haas: I have nothing.

H.M.Jr: Wayne, Jesse Jones is on the wire; I'll call him in a minute - I'll call him and see what he wants.

Taylor: Might have something to do with Mr. Upham's business.

H.M.Jr: That's what I thought.

Hanes: I understand Mr. Lambert, with whom you had that conference on the housing program, has seen the President and he says he's got clearance on most of his ideas, so why don't we have a conference with him on Monday?

H.M.Jr: Says who?

Hanes: To find out - with him and Daiger - to find out what the President's ideas are. He said he had a new plan, not exactly on the tax exempt feature.

H.M.Jr: Are you going to see him?

Hanes: Sometime during the day. I wanted him, if possible, to have a few minutes with you on Monday, if he could.

H.M.Jr: No, you see him first. The President spoke to me about it after he had lunch with me, so I said to the President, "You know what the nigger-in-the-woodpile is?" He said, "No, it sounds all right to me." I said, "Well, this is a program whereby communities will be able to sell totally tax exempt bonds, and it seems to me that is contrary to your statement that you don't - you want - don't want to permit a continuance of issues of totally tax exempt bonds." He said, "Gee, I didn't get that."

Hanes: They didn't put it to him that way; they didn't tell him the same thing they told us. They have worked it out on a brand new basis, which doesn't call it tax exempt, although, cut straight through it, there is a tax exempt

- H.M.Jr: Well, will you go through it, if you don't mind? I like Mr. Lambert; he's a nice fellow. He takes a lot of time to get down to a thing. If you will cut through the cobwebs - because the President said he's going to see Lambert, you, and me on his return.
- Hanes: I think he wanted both of us to go up. I'll go up Monday night with him and spend the night; I think that's probably the best thing to do.
- H.M.Jr: If you don't mind, he's an awfully nice fellow, but he takes a little too much time. If you want to spend some time with him, I think it would be very nice, because the President expects to see you and me. All I am interested in is, has he changed his case? Is it a four per cent bond, eighteen years, totally tax exempt. If it is
- Hanes: ... Nothing doing.
- H.M.Jr: I am going to put it to the President - say, "O. K., Mr. President, you decide." Let's you and I be the popular guy. See? I mean, I'd like to know. The sooner the Treasury knows it, whether the President's still sticking to that position about totally tax exempts, we'll know where we are, because Bell and I turned Straus down on a bigger proposition than that. Straus came up to Bell and put up a proposal where he could sell all his bonds locally and wouldn't have to sell any through the United States Government. It was marvelous, and Straus had me for an evening, see, so we went on, "Fine, fine." And when he came back, I said, "Dan, what's the matter?" He said, "Only one thing is the matter: Under the law, if the local administrations sell these bonds, they are totally tax exempt." He said, "Has the Administration changed their policy?" I said, "No. Turn them down."
- If we sell them - it must be the same thing Lambert's working under, isn't it? So Bell and I turned Straus down on a billion dollars worth of bonds - eight hundred million dollars worth of bonds - on exactly the same thing.

Hanes: What's his plan, higher capital

H.M.Jr: Sure; take the New York Housing Authority - let's say they need fifty million dollars. The New York Housing Authority would sell them to the XYZ Banking Syndicate; they'd place them, and sell every one, because they are totally tax exempt. And Bell and I turned Straus down.

Now gosh - I mean, if it's good for Lamb- it's good for Straus. Straus can - he could let every local housing authority grab them up. I could buy those myself, personally; Oliphant wouldn't let me buy any Government bonds - baby bonds - for my children and grandchildren, but I'd buy all those I could, and so would you - four per cent, totally tax exempt bonds, at par. Baby! I mean, just grab them. Huh?

Hanes: He knows he couldn't get away with it - on his first plan. I mean, the first time he talked to you, you told him that, perfectly plain.

H.M.Jr: He's a nice gentleman, and I like him, and all that, but if you will just have the first session, and after you've got it, if you want to bring him in, then we'll give him a fifteen minute appointment. And you say, "This is the plan; I missed a swell dinner, but here is the plan." See?

Hanes: O. K.

H.M.Jr: And then we will be ready for the President. All right?

Hanes: Yes sir.

H.M.Jr: Whatever goes for him goes for Straus. Is he operating - do they operate under the same law Straus does, as far as local authorities are concerned?

Taylor: Yeah.

Hanes: He's operating in a different field.

H.M.Jr: It's the same thing; a local housing authority is a little finger in there that can sell a

- 10 -

totally exempt bond. If they sell it, it is tax exempt; if we sell it, it is subject to tax.

Personally, see, I think it is too great a price to pay to give these fellows a totally tax exempt bond, and I am not going to change my position unless the President overrules me. That is only in the case of the note issues in totally tax exempt bonds. I am opposed to it, and I think the President is too. I think it is a mistake. I think it is too great a price to pay to get out a couple billion dollars of totally tax exempt bonds, where we are already, in the case of Straus, paying a hundred percent, practically. We are giving ninety per cent of the money, and then two thirds of the interest, aren't we?

Haas: Yes sir.

H.M.Jr: Huh? Something like that, isn't it? Roughly like that? Huh? It's about that, isn't it, George? Ninety per cent of the money and two thirds of the interest?

Taylor: (Words misunderstood - two or three talking at once.)

H.M.Jr: Isn't it roughly like that?

Haas: Yes, that's so.

H.M.Jr: Well, I think that's enough. But you go out - you get a good dinner, and come back and tell me all about it. You have some Chateau Yquem, 1923, or something like that.

Gibbons: Don't take too much, so you'll understand it.

Taylor: No, he'll understand it better if he takes more of the Chateau Yquem.

Gaston: Yeah, he'll come back with a report in favor of the thirty-dollar-a-week pension plan.

H.M.Jr: And a little Napoleon brandy. (Following words not understood because Mr. Gaston and Mr. Gibbons talking to each other. H.M.Jr. saying something about a dinner Ambassador Bullitt gave Mr. Jesse Jones.)

- 11 -

H.M.Jr: He's still talking about lending the Chinese two hundred million dollars, with regard to the dinner Bullitt gave him.

(Nods to Mr. Gibbons.)

Gibbons: Nothing.

H.M.Jr: What have you got, "H. B.?"

Upham: Mr. Foley's asking instructions on two points: A - Mr. Mortimer Fleishhacker asked to see him this morning, and he wonders if, after the committee's been appointed, he should call on Mortimer.

H.M.Jr: What's your answer to that?

Upham: My answer is that I prefer he didn't.

H.M.Jr: All right. Anybody object to "H. B's." recommendation?

Upham: I haven't been able to reach Mr. Delano yet.

H.M.Jr: All right.

Hanes: May I ask why, Cy, you don't want him to call on him.

Upham: My idea is, now that the committee has been appointed, we should deal with that committee rather than the Chairman of the Board.

(Mr. Oliphant and Mr. Hanes talking together.)

Upham: He is not on the committee.

Hanes: You know who the committee is?

Upham: Three individuals not connected with the bank, and reported to be the best possible committee.

H.M.Jr: Have you told the boys that?

Upham: I told Mr. Oliphant and Taylor; I have not had time to tell Mr. Hanes and Gaston.

H.M.Jr: Tell them.

Upnam: The three men are Mr. Kahn, who is the President of the Street Railway Company there and who is a man of personal means and good repute. The only thing in connection with him is that there have been attempts to smear him a little bit because of the attempts to sell the Street Railways to the city of San Francisco - a little political stuff.

Taylor: Sounds like a smart deal.

Upnam: A man named Reis, who is President of the Eldorado Oil Company. A man by the name of Waymann, President of an insurance company, a good firm and a good man.

Oliphant: Insurance - in the business of selling insurance; it's not an insurance company? Is that right.

Hanes: As a matter of courtesy, do you think it is
(talking low) I think it would be good to have him sit in and listen.

Taylor: So do I; I think there is no reason in the world why he shouldn't talk to the Chairman of the Board, and he might find out something.

Upnam: Of course, we have given Mr. Fleishhacker full opportunity to talk to everybody. I don't think there is anything we don't know.

Taylor: But keep the doors wide open.

Oliphant: Put yourself in the position of Mr. Kahn; assuming this is a committee, he's being greatly disturbed about this very bad situation, and you've been told of this situation, put it up to the Board. Do you think it is so good for our man, particularly a lawyer, going around, having private conversations with fellows left off the committee. I'd rather he'd come back.

Taylor: I don't think it has the slightest harm; I think it is better; that way, you've always got the door open for any of these mugs that want to come in and talk.

- 13 -

Upham: I have no great feeling in the matter. I just

Oliphant: I think he ought to report then to the committee of three what he's talked to Fleishhacker about.

Taylor: If he wants to.

H.M.Jr: May I make a suggestion? - But I'll wait until everybody's through.

Hanes: My thought is, he shouldn't do any talking but just listen. Fleishhacker said he wanted to talk to him. I'd say, "Go sit and listen and be courteous and nice." You'd do the same thing here; if he walked in here and asked to see the Comptroller, you'd see Fleishhacker, wouldn't you?

Upham: Surely. I saw him yesterday.

Hanes: I wouldn't be afraid to see him. He doesn't have to commit you to anything.

Upham: I wouldn't go to his bank and visit him.

Hanes: You wouldn't? I wouldn't mind visiting him anywhere.

Gibbons: Who's Fleishhacker talking to out there?

H.M.Jr: What I would suggest is this: I would suggest that Mr.....

Klotz: Foley.

H.M.Jr: Foley get a ticket on the first plane east; he's completed his mission. If, while he's waiting, Mr. Fleishhacker wants to drop over and see Mr. Foley at his hotel, Foley having somebody else there, there is no objection, but I'd have Foley get the first ticket he can get. I wasn't crazy about having Foley go out there anyway. Foley's gone out to deliver these papers; let him get the first plane he can back. If Fleishhacker wants to drop over and see Foley, as far as we are concerned with Mr. Fleishhacker, there is no reason why he shouldn't see him. I'd have Foley get the first ticket on the first plane he could get back.

- 14 -

Upham: Let Fleishhacker come to see him? Or, it doesn't matter.

H.M.Jr: It doesn't matter, but rather than have Mortimer Fleishhacker be able to say the Treasury representative refused to see him, I'd let him see him. I don't want them, from now on - it seems to me the representative of the Comptroller's Office there, Foley, has carried out his mission. It's fortunate they appointed three high class men as they did; I think it's a swell break, but let Foley come back.

Upham: That suits me fine.

Oliphan: I just want to avoid assuming that is a good committee. They are wondering what's going on between the Treasury and Fleishhacker.

H.M.Jr: That's all right, but I mean - it's unimportant but I'd let somebody be with Foley when he sees Fleishhacker.

Now, what else? You said two points.

Upham: Well, the second one -- should he come back?

H.M.Jr: The answer is "Yes." Before we go, does anybody object to his coming back? John?

Hanes: No.

H.M.Jr: Cy - ah - ah - Wayne?

Taylor: (Nods "No.")

Upham: Mr. Jones will, I suspect.

H.M.Jr: Well, we'll call him now. I want Foley back here. As I said the other day, I didn't like him going, but he went there; he's carried out his mission; now let's have him come back.

(Over telephone:) Jesse Jones, please.

Upham: Tom Smith called this morning from New York. He had been there at a meeting of the A. B. A., and he said he had an opportunity to tell the bankers from all over the country that Mr. Delano is tops.

- 15 -

Oliphant: And Mr. Upham too.

H.M.Jr: What?

Oliphant: And Mr. Upham too.

Upham: Yes, but he said the bankers all knew me, and I couldn't put anything over on them, as far as he was concerned.

H.M.Jr: I wonder.

Upham: For your information, a bank call went out today for reports of condition as of September 28.

H.M.Jr: There was one went out?

Upham: Remember, we discussed that some time ago and you said you didn't care, one way or the other?

H.M.Jr: Didn't that go a long time ago?

Upham: No sir.

H.M.Jr: That was always done by whispering in my ear - always very secret, and all that sort of stuff.

Upham: I am sorry if I overlooked any of the infinitives.?

H.M.Jr: No, that's all right. You want me to write on a piece of paper - want me to write the man's name on it, who wrote you?

Upham: Yes.

H.M.Jr: (Writes name, and holds it out for Mr. Upham.)

Upham: I can tell that's correct, from here.

Klotz: (Too low to hear.)

H.M.Jr: Have I got a good system?

Upham: You must have.

H.M.Jr: Have that fellow come back; he'll tell you a lot.

H.M.Jr: (Telephone:) Hello.

Operator: Mr. Jones is taking on a long distance call.

H.M.Jr: O. K.

Operator: I'll get him in just a minute.

H.M.Jr: He didn't come out of the Treasury, and he didn't come out of your office. I know what's it in.

Upham: We don't want him back, though. Did you say have him come back.

H.M.Jr: I just want to let you know I knew the man's name and I know what's in the letter.

Upham: There's two letters.

H.M.Jr: I knew he was sent down to investigate somebody.

Upham: (Laughs) I give up.

H.M.Jr: And nobody in the Treasury told me - nobody connected with the Treasury.

Upham: You're pretty near as good as I am.

Klotz: (Laughs) That's cute.

H.M.Jr: Archie, is there a franc?

Lochhead: There is a frank, still; it's rather still this morning, thank goodness. Sterling is not terribly robust though; it's about 3.79½. In fact, the only currency that's been able to gain any of its losses is Holland.

H.M.Jr: (Telephone conversation with Mr. Jesse Jones at 9:59 A. M., attached.)

Friday
October 7, 1938
9:58 a.m.

248

HMJr: Hello.
Operator: Mr. Jones is talking on a long distance call.
HMJr: O. K.
O: I'll get him in just a minute.

9:59 a.m.

HMJr: Hello.
Operator: Mr. Jones.
HMJr: O. K.
O: Go ahead.
Jesse
Jones: Hello.
HMJr: Hello.
J: How are you?
HMJr: I'm fine!
J: Good. It's fine weather.
HMJr: Yes, it was. It's -
J: Well, I thought that whenever you are ready I'd like to talk a little bit about some financing; the market seems to be pretty good.
HMJr: Well -
J: I believe you've put us down for October.
HMJr: Yeah.
J: And ah -
HMJr: I'll - I'll explain it to you - ah - I'll talk to you about it. Do you want it - ah -

J: Well, because I don't see how we're ever going to get a better market than we've got now is what I was thinking.

HMJr: Yeah.

J: So if you'll put that on your calendar there and we'll have a little visit.

HMJr: Do you want to do it this afternoon?

J: I'd be delighted.

HMJr: How is - ah -

J: Does one o'clock suit you?

HMJr: No, I've got seven - six fellows for lunch. (Laughingly)

J: (Laughs) Well, ah - you don't mind my suggesting do you? (Laughingly)

HMJr: I'd be very angry if you didn't.

J: (Laughs)

HMJr: How would three o'clock strike you?

J: It'd be fine.

HMJr: I'll be delighted.

J: I'll come over.

HMJr: Thank you.

H.M.Jr: I am going to tell Jesse I don't want him to do any financing. We've got too much money; we're lousy with money. He isn't going to like it.

Taylor: What he's got in mind is the October business.

H.M.Jr: I know. I'm going to tell him, with our funds, I think it would be misunderstood, to pile up that money. We are charging one and a half per cent; I'll explain the whole picture; he ought to ride along and wait until our balances are down and then we'll borrow in June, or sometime. With our balances up the way they are, I don't see how we can explain borrowing money now.

Taylor: It would be very difficult.

H.M.Jr: You agree with me?

Taylor: It's all right with me.

H.M.Jr: I mean, that's what I am going to tell him. I think he'd better wait. That's an ace in the hole which we can use. It's all out of the same pocket any way.

Loofthead: Holland, in addition to regaining eight million dollars at the end of last week, has, in various installments, gained about six million more, with which they are buying gold from us tomorrow. But they are the only country that's really had any flow of capital back again.

The other interesting thing on the securities purchased yesterday is that England turned around fast (words jumbled) and that explains, in some way, the weakness of sterling, because the security dealers were selling sterling yesterday afternoon, after some of these purchases.

H.M.Jr: I may be all wrong, but I am going to do what I do very rarely - make a little forecast: I've decided that if I was in Europe and I had any money, at best I'd want to invest it in American property, using the all inclusive word, and I am just thinking that money is going to keep right on coming over here, because it's the only place for it.

Lochhead: Mr. Oliphant and I had a little discussion in the hall this morning, that the picture looks that way.

H.M.Jr: I thought of that while I was shaving; I mean, if I had any money and I was a European, after what's happened, this is the place I'd want to invest it, and, therefore, I think gold will continue to move this way.

Lochhead: It's interesting to note that the bank of England still has a hundred million dollars on the water, on the way over here.

H.M.Jr: Is that exclusive of my own little accord? When does the second shipment come in?

Lochhead: The second shipment is due in about Wednesday morning.

H.M.Jr: There wasn't a peep in the paper.

Lochhead: Not a word. We used one of the smaller trucking men, so it was not too much of an organization. If we get it fixed up now, some way or other, so we are not going to arrest them all for being criminals but it is

H.M.Jr: Just tell them Great Britain's done it, and it's all right with them.

Oliphant: The Bank of England did it.

H.M.Jr: That's what I've been telling them. Just say the Bank of England did it.

Lochhead: Mr. Bernstein tells me he's getting to a stage where he thinks he's having to give a letter of guarantee to the Federals; they'd still like us to give a guarantee.

Taylor: Plus the form letter?

Lochhead: Plus the form letter.

H.M.Jr: Anything else?

Lochhead: No, that's all.

H.M.Jr: Incidentally, you're leaving here tonight, and I don't want to see hide nor hair of you until Wednesday morning.

Lochhead: O. K., I'll check with Mr. Gaston ~~on~~ Mr. Davenport and go ahead.

H.M.Jr: Do it today, but tonight - until Wednesday morning - and don't go up to the Federal Reserve. What do you want to mix up

Lochhead: I'll have to be in New York, but they are not looking for me, so let it go at that. It was explained to these gentlemen that Tuesday is a holiday in New York. I had to tell that to Mrs. Klotz this morning.

Klotz: I forgot it.

H.M.Jr: O. K. Mac?

McReynolds: The Bureau of Engraving Building has never been formally opened, down there.

H.M.Jr: Got that bottle of ink ready for me to break? Bring it up Monday. Bring it up Monday.

McReynolds: You've got to give them about three weeks notice, in order to get it ready. (Speaking low - next few words not heard.)

H.M.Jr: All right.

McReynolds: I haven't got anything else.

H.M.Jr: O. K., gentlemen.

Sheppard file on political activities

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, October 10, 1938.

Press Service
No. 14-86

Secretary Morgenthau today made public his reply, dated Monday, October 10, to a letter dated October 7 from Senator Morris Sheppard, Chairman of the Special Committee of the Senate to Investigate Campaign Expenditures. Copies of both letters are attached:

Washington, D.C.,
October 7, 1938.

My dear Mr. Secretary:

I am directed by the Special Committee to Investigate Senatorial Campaign Expenditures and Use of Governmental Funds to make reply to your letter of September 9, 1938, in which you propounded the following three questions:

- "(1) Is it your view that the Treasury regulations, copies of which have been sent to you, permit acts which are repugnant to the letter or spirit of the law?
- "(2) Do you contend that it is a violation of the law for a Federal employee to make a voluntary contribution to the campaign fund or to the general funds of a political party?
- "(3) Is it your position that it is a violation of the law for such an employee to make a voluntary contribution to a fund which is to be used for the purpose of advocating a particular candidate for Federal office in a primary campaign?"

In answer to your first question, the Committee is of the opinion that the Treasury regulations are not repugnant to the letter or spirit of the law, but that they do not cover the subject. Those regulations do not call attention to Section 211, Title 18, U.S. Code (Criminal Code, Section 121) which specifically forbids every officer, clerk, or other person in the service of the United States, "directly or indirectly, to give or hand over to any other officer, clerk, or person in the service of the United States, or to any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, any money or other valuable thing" for a political purpose. It is the opinion of the Committee that this section specifically prohibits any employee of the United States from making any contribution, directly or indirectly, to any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, for any political purpose.

In answer to the second question, it is the opinion of the Committee that it is not a violation of the law for a Federal employee to make a voluntary contribution to a political party. The prohibition of Section 211, to which allusion has just been made, relates to voluntary contributions to individual members of the Senate or House of Representatives, and, in the opinion of the Committee, this prohibition includes contributions to any special committees, organized for the purpose of promoting the campaign of a Senator or Representative.

In answer to the third question, it is the opinion of the Committee that no Federal employee may legally contribute, voluntarily or otherwise, directly or indirectly, to the campaign of any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, whether in the primary or in the general election.

Yours very truly,
(s) Morris Sheppard
Chairman

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

- 3 -

October 10, 1938.

My dear Senator Sheppard:

I have received your letter of October 7, 1938 in answer to my letter of September 9, 1938 and I appreciate your response to my request for your observations on the spirit as well as the letter of the law governing political contributions by Federal employees.

Referring to your answer to my first question, I am gratified to learn that your Committee is of the opinion that the Treasury regulations are not repugnant to either the letter or the spirit of the law. Concerning your further suggestion in this connection that the Department's regulations should make specific reference to Section 211, Title 18, U.S. Code, I may say that United States Civil Service Commission Form No. 1982, warning against political activities, contains a specific reference to, and a paraphrase of, Section 211 (see copies attached). The Treasury Department on June 5, 1934, and August 23, 1938, circulated this Form to all the employees of the Department.

I am further gratified to note that your views in response to my second question coincide with the opinion in the Treasury Department that it is not a violation of the law for a Federal employee to make a voluntary contribution to a political party. Concerning your further observation that contributions by Federal employees to any special committee promoting the campaign of a Senator or Representative would violate Section 211, that also has been the position of the Treasury. In addition, I am sure you will agree with me that your reference to such special committee is a reference to but one of many possible devices prohibited by the term "directly or indirectly" in Section 211. The instructions given to Treasury employees by the circulation of Form 1982 mentioned above were not limited to any single device.

Again I am pleased to observe that your Committee's response to my third and final question merely states what, in effect, the Treasury Department stated to all its employees on September 10, 1934 in the underlined portion of paragraph 2 of the Treasury's regulations of that date:

"The instruction contained in said circular should not be construed: * * *

"2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice. If such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States."

I appreciate your cooperation because the subject is, as I have advised you, one in which I have taken a great deal of interest ever since I assumed my present duties.

Very truly yours,
(s) HENRY MORGENTHAU, JR.
Secretary.

Honorable Morris Sheppard
Chairman, Special Committee to
Investigate Campaign Expenditures
United States Senate.

October 10, 1938.

My dear Senator Sheppard:

I have received your letter of October 7, 1938 in answer to my letter of September 9, 1938 and I appreciate your response to my request for your observations on the spirit as well as the letter of the law governing political contributions by Federal employees.

Referring to your answer to my first question, I am gratified to learn that your Committee is of the opinion that the Treasury regulations are not repugnant to either the letter or the spirit of the law. Concerning your further suggestion in this connection that the Department's regulations should make specific reference to Section 211, Title 18, U.S. Code, I may say that United States Civil Service Commission Form No. 1982, warning against political activities, contains a specific reference to, and a paraphrase of, Section 211 (see copies attached). The Treasury Department on June 5, 1934 and August 23, 1936, circulated this Form to all the employees of the Department.

I am further gratified to note that your views in response to my second question coincide with the opinion in the Treasury Department that it is not a violation of the law for a Federal employee to make a voluntary contribution to a political party. Concerning your further observation that contributions by Federal employees to any special committee promoting the campaign of a Senator or Representative

- 2 -

would violate Section 211, that also has been the position of the Treasury. In addition, I am sure you will agree with me that your reference to such special committee is a reference to but one of many possible devices prohibited by the term "directly or indirectly" in Section 211. The instructions given to Treasury employees by the circulation of Form 1982 mentioned above were not limited to any single device.

Again I am pleased to observe that your Committee's response to my third and final question merely states what, in effect, the Treasury Department stated to all its employees on September 10, 1934 in the underlined portion of paragraph 2 of the Treasury's regulations of that date:

"The instruction contained in said circular should not be construed: * * *

"2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States."

I appreciate your cooperation because the subject is, as I have advised you, one in which I have taken a great deal of interest ever since I assumed my present duties.

Very truly yours,

Secretary.

Honorable Morris Sheppard
Chairman
Special Committee to Investigate
Campaign Expenditures
United States Senate

HO: s Retyped 10/10/38

UNITED STATES SENATE

259

Washington, D. C.,
October 7, 1938.

My dear Mr. Secretary:

I am directed by the Special Committee to Investigate Senatorial Campaign Expenditures and Use of Governmental Funds to make reply to your letter of September 9, 1938, in which you propounded the following three questions:

- "(1) Is it your view that the Treasury regulations, copies of which have been sent to you, permit acts which are repugnant to the letter or spirit of the law?
- "(2) Do you contend that it is a violation of the law for a Federal employee to make a voluntary contribution to the campaign fund or to the general funds of a political party?
- "(3) Is it your position that it is a violation of the law for such an employee to make a voluntary contribution to a fund which is to be used for the purpose of advocating a particular candidate for Federal office in a primary campaign?"

In answer to your first question, the Committee is of the opinion that the Treasury regulations are not repugnant to the letter or spirit of the law, but that they do not cover the subject. These regulations do not call attention to Section 211, Title 18, U. S. Code (Criminal Code, Section 121) which specifically forbids every officer, clerk, or other person in the service of the United States, "directly or indirectly, to give or hand over to any other officer, clerk, or person in the service of the United States, or to any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, any money or other valuable thing" for a political purpose. It is the opinion of the Committee that this section specifically prohibits any employee of the United States from making any contribution, directly or indirectly, to any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, for any political purpose.

In answer to the second question, it is the opinion of the Committee that it is not a violation of the law for a Federal employee to make a voluntary contribution to a political party. The prohibition of Section 211, to which allusion has just been made, relates to voluntary contributions to individual members of the Senate or House of Representatives, and, in the opinion of the Committee, this prohibition includes contributions to any special committees, organized for the purpose of promoting the campaign of a Senator or Representative.

In answer to the third question, it is the opinion of the Committee that no Federal employee may legally contribute, voluntarily or otherwise, directly or

-2-

indirectly, to the campaign of any Senator, or Member of, or Delegate to Congress, or Resident Commissioner, whether in the primary or in the general election.

Yours very truly,

/s/ Morris Sheppard

Chairman.

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

COPY of note in Miss Chauncey's
handwriting:

261

00
Mrs. Herbert:

The Secretarh signed the
letter and sent it by registered
mail from Poughkeepsie.

17
262
September 16, 1938.

My dear Senators:

I am writing to acknowledge receipt of your letter of September 12th, with which you enclosed a copy of a press release issued by your Committee, a copy of an affidavit, and supporting documents, by M. H. Magruder, Collector of Internal Revenue at Baltimore, Maryland, and a copy of a pamphlet issued by the United States Civil Service Commission entitled "Political Activity and Political Assessments of Federal Officeholders and Employees."

I first read the substance of your press release in the morning papers of September 11th, which was the day preceding primary election day in the State of Maryland. Noting that the Committee's statement, according to newspaper accounts, criticized actions of employees of the Treasury Department and noting also the statement in the newspapers that the Committee's findings and Collector Magruder's affidavit had been submitted to the Secretary of the Treasury, I at once instituted an inquiry to discover why these documents had not immediately been submitted to my attention. I found that the affidavit had not been received. Your letter of September 12th, which was received in this office on Tuesday, September 13th, the day after the Maryland primary election, first brought them to my attention.

I have taken careful note of the finding of your Committee that Mr. Magruder's action was in violation of "the spirit of Paragraph 6 of Section 2 of the Civil Service Act."

Mr. Magruder's statement in his affidavit that the document he read to the non-Civil Service employees of his office had previously been approved by his superiors in the Treasury Department fully accords with the facts. Not only the document, but the use he made of it, had had departmental approval.

In response to your request for a statement as to what action I intend to take in this matter, please be advised that I am unable to discover any reason for any further action on my part. As to the attitude of the Treasury Department with respect to political activity

- 2 -

by Treasury employees, I refer you to my letter of September 9th and to the regulations of the Department, copies of which have been sent to you. The document issued by the Civil Service Commission, a copy of which you enclosed, does not bring any new information to me. Our understanding both of the letter and the spirit of the law on this subject has been embodied, not only in the regulations I have issued, but in repeated instances of vigorous action by this Department in every instance where we have discovered what appeared to be a violation of the law in this regard. We have dealt with facts as they arose, we have given the law a strict interpretation and we have not been deterred or influenced at any time by any partisan considerations.

Very truly yours,

Secretary of the Treasury.

The Honorable Morris Sheppard,
Chairman, Special Committee to Investigate Senatorial
Campaign Expenditures and Use of Governmental Funds,
United States Senate.

WALLACE H. WHITE, JR., M.D.
WALLACE H. WHITE, JR., M.D.

United States Senate

SPECIAL COMMITTEE TO
INVESTIGATE SENATORIAL CAMPAIGN
EXPENDITURES AND USE OF GOVERNMENTAL FUNDS

Washington, D. C.,
September 12, 1938.

Dear Mr. Morgenthau:

There is transmitted herewith a copy of a statement issued yesterday by the Special Committee to Investigate Senatorial Campaign Expenditures and Use of Governmental Funds, with respect to the undue political activity of certain Federal officials in the Maryland Senatorial Primary election. Your particular attention is called to the case of M. Hampton Magruder, Collector of Internal Revenue at Baltimore, and to the affidavit which he made to representatives of this Committee which is now in the Committee files, a copy of which is also transmitted herewith.

The Committee desires to call your attention to the "political activity circular" of the United States Civil Service Commission, herewith enclosed, and Article V of Form 1236 of the United States Civil Service Commission on "Political Activity and Assessments of Federal Officeholders and Employees," as well as to paragraph 6 of Sub-section 2, of Section 2, of the Civil Service Act.

You will observe the allegation in Mr. Magruder's affidavit that before assembling the non-Civil Service employees of his office, he submitted the statement which he proposed to read to them to superiors in your Department.

The Committee will be glad to have any comment you desire to make, together with a statement as to what action you intend to take in this matter.

Yours very sincerely,

Morris Sheppard,
Chairman

TREASURY DEPARTMENT

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

SEP 11 1938

SECRETARY OF TREASURY
OFFICE

SPECIAL COMMITTEE TO INVESTIGATE SENATORIAL CAMPAIGN EXPENDITURES
AND USE OF GOVERNMENTAL FUNDS.

Release on September 11, 1938.

MARYLAND:

Three charges of undue political activity on the part of Federal officials in the Maryland primary, in addition to those heretofore acted upon, have been called to the attention of the Committee, as follows:

1. That M. Hampton Magruder, Collector of Internal Revenue at Baltimore, during office hours called into his office the non-Civil Service employees under his jurisdiction and read to them a statement indicating his support of Representative Lewis. This charge was made by Senator Tydings.

2. That Frank S. Revell, District Commissioner of Immigration and Naturalization at Baltimore, was taking an active part in the Senatorial primary campaign on behalf of Senator Tydings. This complaint was made by Representative Lewis to the Committee and also to Secretary of Labor Frances Perkins.

3. That Gilbert A. Dailey, Collector of Customs at Baltimore, issued a formal statement to the press announcing his support of Representative Lewis and giving his reasons therefor. This charge was brought to the attention of the Committee through Maryland newspapers.

Representatives of this Committee have investigated each one of these instances.

In the case of Mr. Dailey it does not appear that he has in any manner attempted to influence or coerce the political action of any Federal employee and that his activity was confined solely to the published statement of his own position. In this activity the Committee finds no ground for criticism.

In the case of Frank S. Revell, it does not appear that he made any attempt to influence or coerce any Federal employee and that his activity consisted of expression of his support of Senator Tydings to citizens and residents of Maryland, particularly in his own county of Anne Arundel. In this activity the Committee finds no grounds for criticism.

In the case of M. Hampton Magruder, Collector of Internal Revenue at Baltimore, it appears from the investigation of the representatives of the Committee and from the affidavit of Mr. Magruder himself that he did call certain non-Civil Service employees under his jurisdiction into the office provided for him by the United States Government and there read to the assembled employees a statement of his preference for Representative Lewis and of his reasons therefor.

It is true that in this statement Mr. Magruder expressly disavowed any intention of coercing any of the employees under his jurisdiction when he had thus summoned but the Committee finds that his action in thus assembling the employees was in violation of the spirit of paragraph 6 of Section 2 of the Civil Service Act, which provides that no person in the civil employment of the Government "has any right to use his official authority or influence to coerce the political action of any person or body." The Committee is submitting Mr. Magruder's affidavit and its findings to the Secretary of the Treasury.

Under date of September 5, 1938, Representative David J. Lewis transmitted to the Committee an affidavit of the same date by one Joseph Hardy, alleging that he had been removed as a W.P.A. worker and had been refused reassignment by the reassignment clerk, Charles S. Stokes of Baltimore, because of his declared intention to support Representative Lewis. The Committee is of the opinion after a review of the evidence gathered by our investigators, that the allegation of Hardy is not sustained.

for release on September 11, 1938 (continued)

- 2 -

Under date of September 7 a letter was received by the Chairman from Representative David J. Lewis to the effect that information reaching him indicated that the campaign expenditures of Senator Tydings were in excess of those reported to the Committee, and that it had been reported that these expenditures were as large as \$200,000. Investigators of the Committee have checked as many of the sources of information suggested by Representative Lewis as it has been possible to reach since the complaint was filed and have to date found no information to sustain the allegation.

COPY

State of Maryland }
County of Prince George's } ss

I, N. L. Wagner, Upper Marlboro, Md., having been duly sworn according to law depose and say:

I am Collector of Internal Revenue for the District of Maryland, District of Columbia, etc. On or about August 24, 1933 in my office in the Gaston house in Baltimore, Md., I read the attached statement to employees of that office. Prior to reading this statement I read those employees a preface which is also set forth on an attached sheet. Attached to the statement given to the press is also a preface. The statement read to the employees and the one given to the press are the same with the exception of the preface. My signature appears on each instrument. The above mentioned statement was discussed with Mr. Stephen Gibbons, Assistant Secretary of the Treasury and it was read to the employees after receipt of his authorization and permission. Prior to its publication in the press on Sept. 1, 1933, it was examined by Assistant Secretary of the Treasury Gaston and its publication was the result of his authorization and permission. Both Mr. Gibbons and Mr. Gaston were of the opinion there was nothing in the statement to give rise to the suspicion of coercion or intimidation by me upon the employees of my office. I am also of the same opinion. The said statement was not read to the above mentioned employees for the purpose of coercing them into voting for any candidate. The statement was the result of many inquiries I received from the above mentioned employees regarding my position in the Lewis & Tydings primary contest in Maryland. The September 5, 1933 issue of the Baltimore Evening Sun quotes Senator Tydings to the effect that I indicated to the employees of my office that their tenure in the future could be influenced by who was nominated. I hereby pronounce that quotation as an absolute falsehood. I never have, either before or after reading the herein described statement, by word or deed, sought to influence in any way, the vote of any employee in my office and I challenge Senator Tydings to disprove this statement. It might be added that I have not directly or indirectly asked any employee in the office to contribute to any campaign fund for any candidate. I have not asked them to vote for any candidate. I did not ask them to participate in any way, directly or indirectly, to solicit votes for any candidate.

Witness: (Signed) James P. Gaghan (Signed) N. L. Wagner

Sworn to and subscribed before me this 25th day of September, 1933 at Upper Marlboro, Md.

(Signed) Joseph E. Gorman
Joseph E. Gorman, Investigator for
Prince George's County, Maryland

COPY

I have asked you here for the purpose of discussing with you the report and effect of Department Circular #519, promulgated August 2, 1934, promulgated September 10, 1934 defining the political activities of Treasury Employees with special reference to the forthcoming Democratic Senatorial Primary to be held throughout Maryland on September 12th next. I am addressing myself solely to Democrats? because none other can participate therein, and solely to Democrats not under Civil Service.

I am assuming that none of you are at this time holding any other office and that none of you are candidates for political office..

You and I are definitely free to vote as we please and are likewise free to openly express our preference for any candidate for United States Senator. You and I have the unquestioned right to refrain from voting if we so elect.

You and I can make campaign contributions voluntarily, but not to a person in the service of the Government. You and I can make speeches provided they are wit out offensive partisanship on public questions.

You and I are free to serve as delegates to the State Convention.

You and I have no right however to use Government time during office hours to engage in political activities. You and I can neither solicit nor receive in any Federal building money or other things of value for any political purpose whatsoever.

With this brief resume of the definite things we are free to do and the definite things we are excluded from doing, let me make this further statement in response to a question which many of you have asked me, "Who will I support for United States Senator in the primary election on September 12th?" I am willing to answer this question definitely, name the person and state the reasons which impell me to make a choice, with the distinct understanding that you shall be free regardless of any preference I may have to follow your own inclinations and vote for the candidate of your choice.

Those of you who were appointed by my predecessor, Mr. Ray, when he came into office were in fact sponsored by persons who were definitely in accord with the policies of the administration.

You will recall that when I came into office in September, 1935, I re-appointed all of you, and this was in complete accord with the wishes of your sponsors, who together with others, were likewise my own sponsors. You know, of course, that my own is a Presidential appointment and subject to senatorial confirmation. When I came in then in September, 1935 and you were all covered by blanket re-appointment, our sponsors, and I were beyond question in complete accord on administration policies.

Now with regard to those of you who have been appointed since. All of you, with few exceptions, have had the same sponsors. I have acquiesced in this sponsorship with the fond hope and the keen desire

COPY

-2-

some how, in some way, one of your sponsors and one of mine might come to support at least a major portion of administration policies. It is now manifest that this is not the case. So when I came into office my sponsors were with the administration. If some of them have seen fit to change their attitude, I see no reason why I should be persuaded to alter mine. Consequently, I shall support David J. Lewis for United States Senator in the September 12th primary.

This attitude of mine, by repetition, is for the purpose only of letting you know my position and the reason for my choice. It must be understood that you are to have complete freedom in making your own choice, and whether that choice is in accord with mine or contrary to mine must rest finally with you. It must be understood, also, that you are free to exercise your civic rights and duties as a citizen.

(signed) M. H. Magruder.

COPY

Editor of the

As the statement I made to my employees in the Revenue Service has given rise to speculation as to just what I did in fact say to them, and to do complete justice to them and to myself, I am willing to have it published, with the full understanding that it be done in its entirety.

(Signed) M. H. Magruder.

COPY

The only preface to the statement read, was as follows:

"I have asked you here to talk to you about a matter
concerns you as employees in the Internal Revenue Service
as well as myself as Collector of Internal Revenue, and what I
about to say to you I am putting in writing in order that
there may be no misunderstanding, no misinterpretation, and no
misquotation."

Then the statement that was given to the newspapers was
read.

(Signed) L. H. Lagrader.

COPY

272

UNITED STATES SENATE

Washington, September 16, 1938.

Dear Mr. Morgenthau:

Following up my wire of September 12th, acknowledging receipt of and thanking you for your letter of September 12th, I am replying further at my first opportunity.

I observe that in the course of your discussion of the political activity of Treasury employees, you state that you are seeking all authoritative guidance. Inasmuch as the Special Committee to Investigate Senatorial Campaign Expenditures and Use of Governmental Funds is not now in session, I feel that the most authoritative results will be accomplished, so far as this Committee is concerned, by the submission of your letter to the Committee at its next meeting for an authorized answer.

The next meeting of the Committee will occur in about twelve or fifteen days, and I shall be glad to submit your letter to the Committee at that time.

I desire to express my appreciation of the spirit in which you write.

With highest regard, I am,

Very sincerely,

/s/ Morris Sheppard.

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

COPY

TREASURY DEPARTMENT
TELEGRAPH OFFICE

25WCR 40 GR

1938 Sep 12 AM 10 49

SN WASHINGTON, D. C. 1038A SEPT 12 38

HON HENRY MORGENTHAU JR.

THANKS FOR YOUR LETTER SEPTEMBER NINE, WHICH WAS DULY
RECEIVED. I HAVE BEEN PREVENTED FROM ANSWERING BY FACT
THAT COMMITTEE HAS BEEN CONTINUOUSLY IN SESSION SINCE
SEPTEMBER EIGHTH AND IS IN SESSION TODAY. I WILL REPLY IN
DAY OR TWO.

MORRIS SHEPPARD CHAIRMAN

1049A

(Initialed) "HEG"

carbon copy of letter of Sept. 9/38 to the
--Senator from Secretary M. was given to Miss Chauncey
some time ago for the diary.

mas 11/4/38

COPY

275

August 30, 1938.

My dear Senator:

The newspapers report that the investigations of your Committee into primary campaign contributions and expenditures have raised questions as to the attitude of the Treasury Department with respect to political contributions and the political activity of Treasury employees.

Similar questions arose early in my experience as Secretary of the Treasury and at various times in the year 1934 I directed communications to all Treasury employees on the subject of political activity. Thinking that they may be interesting and possibly useful to you in connection with the work of your Committee, I am sending you herewith a set of these communications.

Sincerely yours,

(Signed) H. Morgenthau Jr.

Secretary of the Treasury.

The Honorable Morris Sheppard,
Chairman, Special Committee to Investigate Campaign Expenditures
United States Senate.

HEG/maH

"Sent by Special Messenger 12:15 p.m. 8/30/38 MAH"

Friday
October 7, 1938
10:19 a.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Good morning, Henry.

HMJr: Hello, Sumner.

W: I tried to reach you a few minutes ago but
you were tied up.

HMJr: That's right.

W: I talked to Hamilton after speaking with you
yesterday - I hadn't understood fully the facts -

HMJr: Yes.

W: I don't see that there's anything to be gained
by his being present.

HMJr: O. K.

W: We know exactly what the matter is-that you're
taking up.

HMJr: Well, I just wanted to do the State Department
the courtesy of asking them.

W: I appreciate that very much, as you know.

HMJr: And ah - no feelings if they're not here.

W: Right. Will you let me know what decisions you
reach?

HMJr: Yes. Well, I won't reach any decision today
but - ah - I'll - we'll keep you posted if -
I'll put it this way - if and when we reach a
decision we - we'll - we'll let you know.

W: All right, fine.

HMJr: How's that?

- 2 -

W: That's fine.

HMJr: I want to talk to you sometime about this whole question of China in a larger phase.

W: I'd like very much to have the opportunity.

HMJr: Because - and when -

W: I was hoping that I could get over to see you this afternoon but I've found I am tied up until seven.

HMJr: Well -

W: And you said you wouldn't be in the office tomorrow.

HMJr: That's right.

W: Well, how about Monday sometime?

HMJr: Ah - I'm all right.

W: All right. Ah -

HMJr: You'd better - I'd better - if you want to do it I'd better tell you now because ah - ah - I'm booked up also.

W: Yes.

HMJr: Do you want to come at ah - ?

W: Would the morning early be all right?

HMJr: No, I've got - I'm working on the budget Monday morning.

W: I see.

HMJr: I could do it in the afternoon.

W: What time would suit you?

HMJr: Ah - three o'clock.

W: All right, fine. Three o'clock Monday I'll be over.

- 3 -

HMJr: O. K.
W: Thanks very much.
HMJr: Goodbye.
W: Goodbye.

RE POSSIBLE CHINESE AGREEMENT

October 7, 1938.
10:30 a.m.

Present: Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Haas
Mr. James Moffett, California-Texas Oil Company
Mr. Philip LeFevre, " " " "
Mr. Philo W. Parker, Socony Vacuum Export Company
Mr. Chen (latter half of meeting)
Mr. Mau " " " "
Mr. Ren " " " "

H.M.Jr: The proposal that I asked you gentlemen to come down on was very much what I told you over the telephone. And our people here have been working with Mr. Chen and his associates on what they could sell, and they've worked out a kind of proposal which isn't - hasn't jelled yet, you see.

(Lochhead comes in)

This is Mr. Lochhead - Mr. Parker. Moffett. LeFevre.

I mean it's still in kind of the flux. They've seen - we've seen the paint and varnish people, we've seen distributors of this, and they're all very much interested in a stable market for tung oil, if they can get it. And what they're talking about - but none of the thing has jelled yet - possibly, say, a three-year contract with a corporation which the Chinese Government may form in the United States to do their purchasing, which they haven't had before, which for want of a better name I've nicknamed the "Chinco"; but I mean on the order of Amtorg, you see, which they haven't got. And that thing they're all working on now, and

But this man Chen - I don't know whether you people know him or not - he's a very frank and very honest fellow and he doesn't hide anything, and he's a pleasure to do business with. And he really tells you the facts. He doesn't do the way some of these other people do they've had over here: tell you a lot of fairy tales. And he says quite frankly, "We've got the tung oil, we want to sell it, but we've got no way of transporting it," and he says, "Can you help us organize a transportation system?"

And I've asked you people down. I'm going to be very frank, because I know as far as your (Parker) company

-2-

is concerned that you've got large interests in Japan. And I'm not as familiar - I don't know whether you (Moffett) do too.

Moffett: Not to the extent they do.

H.M.Jr: I'm going to ask you, if you sit in on it, in fairness to them - whatever we discuss here, let's say, is United States Government business. Is that fair enough? What?

Parker: Very gratifying

H.M.Jr: What?

Parker: Very gratifying to have it put in that way.

H.M.Jr: Let's say it's United States Government business, in fairness to Mr. Chen, because naturally he's terribly nervous and he's put himself so completely in my hands that it would be almost like hitting a child to do him a disservice. And I wanted - that's the whole story.

Now, he's going to show us - you see, what they're doing - the reason I want to keep it confidential is, he's taking it for granted that Hankow is going to fall and what he wants to do is, what can they do after Hankow falls? See? I mean he wants to look ahead. And he's talking that he's going to show us possible routes that they might use after the fall of Hankow. That's why I said he's so honest. Huh?

And you (Parker) said over the phone that you have already done a little experimenting with this.

Parker: Purely experimental, I think to the extent of only two trucks, and I don't know to what extent they've been put into service.

H.M.Jr: Have you (LeFevre) got any people operating

LeFevre: With tung oil?

H.M.Jr: Yes.

LeFevre: No. Got oil.

-3-

Parker: Of course, we haven't experimented with tung oil.

LeFevre: You mean trucks in China.

H.I.Jr: From Kuang-Hsi.

LeFevre: Oh, from Kuang-Hsi.

Parker: Of course, I don't know to what extent you want me to talk about various routes.

H.I.Jr: What I want to do is talk first among ourselves. Then I've got Mr. Chen in the building; I'm going to ask him in. Then he's going to tell us what the routes are. I thought if you people had the time - we have an office that Mr. Magill used to occupy - let you people go down in there, get down to brass tacks; then if you want to see me this afternoon, I'm available, see? But I thought it's a big subject and certainly worthy of one day's time, huh?

Parker: Well, I think this, Mr. Secretary - and Mr. Moffett and Mr. LeFevre, I don't know what their views are, I haven't talked to them - but I think this scheme is possible only by Government operation, and for this reason: Do you realize that when you've got a case of gasoline, say, to go to Chungking by this motor transport, we estimate it would cost \$30 to \$35 a case of ten gallons; so that there is no - there isn't much hope of commercial business at those prices. Do you (LeFevre) - wouldn't you ...

LeFevre: I should think so.

Parker: Wouldn't you check with that? And I think that's low, if anything.

H.I.Jr: Well, let me help a little bit in this way. You say how much money?

Parker: Well, in Chinese currency, from \$33 to \$35 and up.

H.I.Jr: A case.

Parker: A case of ten gallons. In Chinese currency that's three and a half dollars

H.I.Jr: Delivered where?

-4-

Parker: In Chungking; I assume that's probably where they'd want it.

H.M.Jr: Is that where it is?

Locnhead: That would be the central point where they'll have to pull out the tung oil - from around Chungking.

H.M.Jr: What they want, in order to help guide you, give you this as far as I've gone - they, I would say, want organized a transportation system, but they want American technical advice. Now, I think you can find that he'll do almost anything we suggest. That's why I want to be so terribly careful. I mean, for instance, they'll take the oil - gasoline - and in handling it they need technical advice desperately. He says the only thing they've got is - he keeps telling me the Minister of Transportation is a very honest fellow and has done a good job.

Parker: So I understand.

H.M.Jr: The Minister of Transportation. And if he says to you, "Well now, the Government wants to buy a thousand trucks" - whatever they use, whatever is necessary. But what they want is for you people to give them technical advice now to do it.

Now, what are you people going to get out of it? You're going to get a one- - the up-trip will be American oil products. That's why I'm interested to have you people down here, and that's what I should think you people would be interested in.

You see, what they're doing - just to take a little time - if this thing goes through, the United States business men are going to get a complete monopoly on Chinese tung oil; it will all come here for redistribution to the world. If this thing goes through, I don't think it's too much to say that you people, with the situation they have, will pretty near get a monopoly of the United States on the oil business. I think that's within the possibility.

I mean because this fellow Rogers, who is representing Great Britain, and everybody - I mean we're talking

-5-

very plainly, and I'm willing to state the problem. The State Department doesn't want to have anything to do with this, but I'm willing to do this. I think if we help them at this stage that you people can practically get a monopoly for American oil products, and we're going to get all the tung oil to come here, be distributed to the world.

Now, that's something worth while. I mean talking it from your standpoint, is that worth while to take a gamble on?

Parker: Oh, surely worth considering going into.

H.M.Jr: Huh, Jimmy?

Moffett: Surely. The closer we can get

H.M.Jr: What do you fellows risk on this?

Moffett: Well, I don't see anything - if they built a lot of new roads in there - what is it, a thousand miles, military road? - I don't see why two-way traffic can't work out, why it can't be done pretty reasonably if the road is there to let a truck go over.

H.M.Jr: He'll tell us.

Parker: Oh yes. There's a very good system of roads throughout Kuang-Hsi and into Yun-nan.

Moffett: Brand new road, I understand.

Parker: They've been very well kept. And also from the French border. And of course, the Chinese Government is operating a

LeFevre: Thousand trucks.

Parker: ... and have been for some months.

LeFevre: Tank trucks?

Parker: No, no, package trucks. I think tank trucks are impracticable for many reasons.

Lochhead: There has been a lot of independent trucking going on. I don't know whether it's gone to the Government

-6-

now, but the independent trucking

Parker: I think most of those trucks have been taken over by the Government. That's our information.

H.M.Jr: I don't know. There's a lot of information that we have been given, but it doesn't check with what Chen gives us. And Chen has never lied to us. The so-called Yun-nan-Burma road - it isn't near finished, and Ambassador Wang told me it was finished three months ago.

Parker: That's not right.

H.M.Jr: But he did tell us - and things like that where Wang just lied.

Parker: Well, Mr. Secretary, I'd like to ask this question. Of course, from the corporation - my own corporation's point of view, and I assume Mr. Moffett feels the same way, these trucks would have to be operated by the Government.

H.M.Jr: That's right.

Parker: I can't see that we could be in the position of operating trucks for the Chinese Government, because our - that might become very embarrassing, for various reasons.

H.M.Jr: But there's no reason why your engineers can't advise them how to set this thing up and supervise it.

Parker: I don't see any reason for ...

H.M.Jr: I mean that you give them a technical supervision.

Parker: I see no reason why that can't be done. Do you?

LeFevre: (Nods no)

H.M.Jr: I take it Mr. LeFevre knows China.

LeFevre: I lived there, Mr. Secretary,

-7-

H.M.Jr: I know you (Parker) lived there 20 years.

Parker: That's right.

H.M.Jr: And you (LeFevre) lived there

LeFevre: 17 years. I'm just back on home leave. My regular station is China.

H.M.Jr: So that's your territory.

LeFevre: Yes, sir.

H.M.Jr: So then you know it.

LeFevre: I wouldn't suggest that.

H.M.Jr: But all they want is the technical supervision to set this thing up, and - in return for which I think we can get - I'm quite sure that we can get exclusively - I think that they'll buy American products. I think so: certainly the way the rest of the countries are behaving now, not taking any interest in them. Except the President and myself, nobody else is taking any interest. That's the game.

What other doubts have you got?

Parker: Well, I have no doubts so long as my company isn't placed in the position of operating any equipment for the Chinese Government.

H.M.Jr: No, you won't be.

Parker: I think that's the fundamental - wouldn't you feel that way, Mr. Moffett?

Moffett: Yes.

Parker: To the extent that we can assist them in furnishing technical advice and matters of that kind, furnishing them products - my own view is, Mr. Secretary, that except for Government supplies, that when you get into the figures there is nothing practical about it.

H.M.Jr: Except for

-8-

- Parker: Except for Government war supplies, because the cost is prohibitive.
- H.M.Jr: You mean that nobody but the Government can pay the cost of transportation.
- Parker: That's right. You get such transportation costs at the point of destination that you wouldn't be able to sell it to individual consumers - either kerosene or gasoline.
- H.M.Jr: Well
- Moffett: Well, wouldn't it be possible if the road was there, if it's the only way the oil can come in? And it would be the proper and only way for us to put in supplies up-country - the cheapest point of supply.
- Parker: That's true, but when you get prices up that high, the difference between kerosene and gasoline, say, is very little - might be a dollar a unit.
- Moffett: But with the double haul, two-way haul, bringing hauls down and up, and with it being expedited by the Government, I would think you could get costs down to a pretty reasonable figure.
- H.M.Jr: We haven't gone at all into tin, for instance.
- Moffett: All subject to the road. If the road is there you can make a two-way haul and get it down pretty cheap, I would think.
- LeFevre: Actually, Philo, prices in China have been very high.
- Parker: It's a difference between \$10 and \$12 a case and \$30 or \$40; there's a point beyond which you can't do business.
- H.M.Jr: Well, I should think, if they want to, you people could recommend or tell them where they could get a capable manager of a fleet of trucks.
- Parker: We can do that.
- H.M.Jr: And repair people. And help them set up a garage and way stations to prepare the stuff and all that, to keep the stuff moving - to keep the stuff moving.

-9-

Parker: I see no reason at all why that can't be done.

H.M.Jr: I mean the thing that attracts me is that here's a situation where we can get in on the ground floor, do them a service and help the American business man at the same time. And I think - personally I'm very, very anxious to help them. I mean I'll go just as far as the President will let me go, and he knows everything that I'm doing, and he hasn't stopped me yet on this thing. I mean he's entirely familiar with what I'm doing and so far, why, he's urged me to go on.

So - but I want you to know, as far as the State Department, I keep them informed but they don't want to have any part in it. Which is their business. Which is all right also. But I mean they know, we keep them informed, but officially they know nothing about it. But they know the meeting is taking place. Sumner Welles knows that you people are here right now. I want you to know everybody knows; there is nothing secret. But the President is encouraging me to go on and the State Department officially never heard of it. So that's the status.

But as I say, if we could give these people

Woffett: We'd be delighted to sit down with them and do everything we can to try and work it out.

H.W.Jr: Recommend Americans to them to manage trucks, set up repair stations and all that kind of stuff, huh? Put them on their payroll. Put these people on their payroll, huh?

Parker: Right.

H.M.Jr: Well, supposing we have Chen come in. We'll do a little talking. Where is he?

Lochhead: I'll look and see if he's in the other room.

H.M.Jr: Have him come in and we'll

(Lochhead brings in Chinese)

-10-

H.A.Jr: Mr. Parker, Mr. Chen. Standard Oil.

Parker: How do you do, Mr. Chen.

H.A.Jr: Mr. Mau. Mr. Ren.

And this is Mr. Moffett, of the Texas, and Mr. LeFevre.

Chen: Glad to see you. When did you come back?

LeFevre: I came back the end of May, but I've been having a vacation.

H.A.Jr: Want to sit down here, Mr. Chen, next to me?

Mr. Chen, I'm telling these gentlemen something of your problems. I've talked to them very frankly and I told them they were down here as advisers to the American Government and in that capacity anything we discuss here belongs to the American Government, and they said they're very delighted to meet in that capacity. So I feel that you can talk freely to them. And as I say, they're acting as advisers to me, and in that way - they're very glad to act in that way. And so what you tell them or what we tell them here will be as a department here of the Government, so - I mean they're very glad to cooperate on that basis.

Now, without - I explained to them that we're working with you to help the Chinese Government merchandise their tung oil, and we haven't worked out the details. But the first question is, you want transportation, and I asked these gentlemen whether they'd be willing to advise the Chinese Government how to organize a transportation system. They say that they'd be glad to advise how to do that, how to find you the people necessary to run a transportation system. Is that what - that's right?

Parker: (Nods yes)

Moffett: (Nods yes)

H.A.Jr: Now, possibly - what I thought, if you'd talk a little bit here, then go into Mr. Magill's room and sit down and talk some more... But I wasn't able to tell them

-11-

I haven't seen the map, just what routes you were looking for to be using in case that Hankow should fall, you see. And they were asking me - inasmuch as Mr. Parker and Mr. LeFevre were both partners in China for twenty years, they're way beyond me, so maybe you could just talk a little bit here because I'm so much interested, then go in the other room and talk some more, huh?

(Chen unfolds map)

Chen: Maybe these gentlemen are already familiar with these highways.

H.M.Jr: Well, let's go on the assumption that they're not. Let's go on the assumption that they're not. I start at zero.

(Several copies of map are passed out)

Haas: We had ~~them~~ photostated.

H.M.Jr: Do you want to act as teacher, Mr. Chen?

Chen: I was just thinking of how to explain this road. We first propose to have motor traffic from Chungking....

H.M.Jr: Now, where's Chungking?

(Chen points out with pencil)

Chungking, yes.

Chen: (names points in proposed route ending at:) ...to Hongkong. That's the road that we have in view just now, because partially we can use waterway from there.

(Reporter's note: Discussion of routes from here on will be presented only fragmentarily. Discussion took place under very adverse reporting conditions, and the use of unidentifiable Chinese names was very confusing.)

Parker: Do those heavy lines represent, Mr. Chen, the roads that are in existence now?

Chen: Yes, they are already in use.

-12-

H.M.Jr: And these shaded areas are where the tung oil is.

Chen: Yes.

H.M.Jr: Where there is tung oil.

Chen: We don't know whether it would be feasible to have importation of gasoline, kerosene, oil by these trucks, see, and exporting we'd have this tung oil by return trip. And on this point we find the costs - and I understand they are experimenting on that; so if the cost is not very high, can be economized by these two round trips, that would help us in the exportation of wood oil. We have prepared in a very rough way a figure, but that figure is rather expensive because there is only one-way traffic. But if there's both ways, there's two-way traffic, I think that cost can be greatly reduced.

The freight between Chungking, we figure out, through ---- is something - do you (Ren) have that?

(Ren hands Chen a paper)

Chen: A shipment by Hankow to -----

Parker: Pick-up. That's from Hankow to Hongkong?

Chen: To Hongkong, yes. Shipment of a picul* to Yun-nan and then to ----- costs \$38.30. That's yen.

Parker: National currency?

Chen: National currency.

H.M.Jr: (To Parker) High or low? What?

Parker: I should think that might be low. I'd have to look at my figures. I've got gold figures, United States figures, in my mind.

Chen: And the shipment of a picul to Yun-nan and then by railroad - the freight will cost \$55.10.

* Measure of weight: 140 lbs.

-13-

Parker: That's pick-up.

Chen: That's pick-up. That's plus other charges - be total \$66.39

Parker: All figures are national currency.

Chen: Yes.

Now we figure that this figure is very rough figure; it's quite high. So probably you gentlemen can help us to check that and find out whether this figure is right or not, and if it's right, in what way we can reduce that by these two ways of traffic.

Parker: Mr. Chen, what are your views as to the availability of the Wu-chou-Canton route?

DeFevre: Canton isn't in it.

Parker: Well, Wu-chou. What do you figure the - our information is that they expect very serious trouble in Canton, in which event the West River will be closed.

Chen: That's newspaper reports. Just now they're open. We don't know anything. That's a gamble, you see.

- - - - -

- - - - -

Parker: Well, of course, there's another route from Liang-sung (?), French border, which - Liang-sung is a border point just before you go into the Yun-nan province. You're building a railway from - - - - . How near finished is that?

Chen: Not quite finished. Railroad between Hankow and - - - - .

Parker: You could eventually bring that up to the French border, can't you?

Chen: We plan to, but how soon we don't know.

Parker: I understand the stretch from - - - - - to the French border

Chen: That's working.

-14-

Parker: It's within possibility of completion within a few months.

Ren: That road is already completed.

Parker: But the railroad, no. I understand that.

H.M.Jr: Archie, what's the port that Buck said they had so much stuff backed up and waiting at? The message we got the other day.

White: Hoi-fong.

Loonhead: Hoi-fong.

H.M.Jr: Two thousand tons of gasoline there waiting. They couldn't move it.

LeFevre: Just a narrow gauge railway there, Mr. Secretary.

H.M.Jr: He reported two thousand tons of gasoline there.

Parker: I have no doubt. Don't know the exact route. Know they've been buying supplies

H.M.Jr: Where would that be?

Parker: That's at Hoi-fong. And this railway goes up 540 miles.

H.M.Jr: Well, isn't - am I right, Mr. Chen - I mean what you want is additional transportation, for your railroads....

Chen: We have the railroad, but we want equipment and management on the highways so we are assured the proper delivery of other - gasoline or tung oil.

H.M.Jr: Now, if you were going to do that, would you - I mean I'm - I know so little, but wouldn't it be better to disregard Hongkong, which they tell me is so choked now, if you're going to start this thing, and start maybe from this point?

Chen: This is also a possible road, because this is so near to Hongkong, this is connected.

H.M.Jr: Is that possible?

-15-

Chen: It is one of the possibilities.

H.A.Jr: Talking about that road down there.

LeFevre: That's been in operation for a long time.

Moffett: Which is that?

LeFevre: Kuang-chou-wan.

- - - - -

- - - - -

H.A.Jr: No repair shops along there. That's what they need.

Chen: And efficient management, so we're sure we can run on schedule, some sort of schedule.

Moffett: I think that from here, if the road goes right through, as against the railroad,

Parker: I think the point, Mr. Moffett, is if that West River route is shut off I think this route is shut off. The Japanese already have an air base here. Our people in Hongkong - I cabled them, Mr. Secretary, after my talk with you on Wednesday, and they said the same thing. I think if the Japanese should take Canton - I think you'd find the port by our route would be cut off. Then the next alternative is through Hoifong to Yun-nan or possibly from the border here. But this is the surest route.

H.A.Jr: How would they go? Go up this way?

Parker: That's this French railroad - 540 miles, meter gauge.

H.A.Jr: Then they'd go up to here.

Chen: Yun-nan.

Parker: 725 miles from there to Chungking.

H.A.Jr: How many miles?

Parker: 725.

-16-

H.M.Jr: Wouldn't that be the first one to organize? - without committing anybody.

Parker: I should think so. This would be the logical one.

LeFevre: That's the longest but probably the safest, Mr. Secretary. It's the longest.

Parker: Of course, you realize that from this place, Liang-sung - I believe that's the Yun-nan border - I believe there have been bombings already in Yun-nan, have there not?

Chen: Once. Once.

Parker: This railroad up here in Yun-nan, you know - 168 tunnels - be just hung right on the side of the road. So that I would certainly think you should want the alternative motor road to that railroad. I believe that once any considerable amount of supplies go in that way, you'll find the Japanese bombing that railway, and it would be much easier to interrupt, considering the bridges and tunnels, than the Canton line.

LeFevre: It runs through French territory for

Parker: I'm talking about - Liang-sung is the border.

LeFevre: No, sir, Wai-kai (?) is the border.

Parker: That's right. Liang-sung is the border on the North.

LeFevre: From here up it's Chinese.

H.M.Jr: And if they put pressure on them, they might have to stop.

Parker: Well, that's possible. If they stop that, well, there's no access at all, Mr. Secretary, anywhere.

H.M.Jr: You people, either company, have any motion picture showing this kind of territory, what it looks like?

LeFevre: We haven't; probably have in Shanghai, but not here.

H.M.Jr: I mean none of the people have taken pictures?

LeFevre: Just for their own pleasure; but I'm afraid we haven't put anything together.

-17-

Parker: The only time I was there was in 1919. I wasn't operating a movie that year. We have no pictures that would show that.

H.A.Jr: Well, this isn't something that can be settled in a minute, but if I could offer a little advice: if you're going to put down repair shops and have the thing, I'd want to look ahead six months and take something that's going to be good six months from now, because it will take you six months to organize it. I mean you don't want to do something which three months from now is going to be out of the picture. And I should think, from what I have read and studied, that if you're going to build it by Hongkong, it's only a question how long before you're going to lose that.

Lefevre: Or Kuang-chou-wan.

Moffett: This would certainly be the best, if you could work it, put your shops and what not here, go either way.

H.M.Jr: Well, if

Moffett: And you could divert either way. You could start here, put your motor headquarters somewhere up there, but go either way; if this was closed off, then you could use this road.

H.M.Jr: Now how about - what about this road? There's been so much publicity about down through

Chen: The bridge is being built there.

H.A.Jr: How long will that be?

Chen: But shortly it will be finished. And the Burmese government is pushing the railway there to meet this highway.

H.M.Jr: Is this still a matter of months?

Chen: I should believe it will be through soon.

Moffett: Mr. Chen, have you any figures on the days that it would take to run any trucks through?

Chen: From Chungking to Kuang-Hsi, take seven days.

-18-

Parker: From where?

LeFevre: Chungking.

Parker: How many?

Chen: Seven days.

Parker: We figured twelve.

Chen: We'd like very much to have those figures.'

Parker: We figured Chungking to Fort Bayard, fifteen.

Chen: Chungking to -----, eleven days.

Parker: We estimate fifteen.

Moffett: Why is that? On account of military congestion, or road impassable in places, or caving or landslides?

Chen: First place, our cars are bad. We've got

Moffett: Is the road fair?

Chen: Some parts it's a rock bottom, some parts are very - need repair, to put more earth on it.

H.M.Jr: Again as an amateur, wouldn't it be practical - I mean if, for instance - I mean just suggesting this - if they had a caterpillar tractor with four or five trailers rather than trucks? Wouldn't that move - a thing like that could move, well, 150 miles a day?

LeFevre: Raises hell with the road.

H.M.Jr: Not if the trucks have caterpillar tread instead of round wheels. I mean you've seen the trucks equipped with caterpillar.

LeFevre: I think it does - I'm not a road expert, but

-19-

- H.M.Jr: No, I'm - I have two caterpillar tractors on my farm, and the pressure is much less on the thing than it is
- Moffett: We're using them in Arabia and pulling a train of sleeping cars, office trailers, electric light plant and everything.
- H.M.Jr: With a caterpillar?
- Moffett: Yes.
- H.M.Jr: Just throwing it out. And are the trailers equipped with caterpillar?
- Moffett: We go across the desert with big broad wheels.
- H.M.Jr: Yes.
- Moffett: You figure here 15 days. Great guns! that's - on a 12-hour day that's less than six miles an hour, 72 miles a day.
- Parker: You don't know the Chinese roads.
- Moffett: But we go across the desert in Arabia
- H.M.Jr: Initial cost is a little bit more. But you see, Mr. Chen, that's the advantage of getting people - he says they're doing that in the Arabian desert: what we call this caterpillar; it's a big chain, and manufactured very successfully. The engine pulls; then you have four or five wagons behind equipped the same way. And those things - I should think that they'd move, oh, at least 10 miles an hour.
- Moffett: They've moved this camp over a hundred-odd miles right across sand dunes, desert, pulling about five trailers.
- H.M.Jr: And they don't tear the roads down. I mean the pressure is so distributed that it doesn't tear it. And they go through mud just the same. And I wondered if, rather than having motor trucks with wheels and everything else, whether a thing like that, equipped with caterpillar by National Harvester, these people who make this thing,

-20-

LeFevre: We could go into it.

H.M.Jr: Well, I'm throwing it out, because instead of just taking the old idea - this is just as far ahead in the method of transportation as a truck is over an ox-cart, huh?

Moffett: Seems to me this thing here must be congestion, military congestion.

Parker: No. Bridges and ferries; not many bridges - all the principal rivers you have to take by ferry; have to wait, you know.

I think, Mr. Secretary, they've got roads - my information from our people, and we had our Wu-chou manager in; happened to be in New York - that's Wu-chou up here in Kuang-Hsi province - and he's been all over these roads within the last 18 months. He came home in May and he says that the roads are in very good shape in Kuang-Hsi and in Kuei-chou, to this place Kuei-yang.

LeFevre: Yes, to Kuei-yang.

Moffett: They're stone roads.

Parker: Crushed stone and gravel that's been rolled in. So they're passable. In wet weather, of course, most of the roads in China - they're very good dry weather roads, but as soon as it gets wet - there hasn't been much surfacing done; that's true in lots of places.

LeFevre: Well, all the roads in ----- are stone foundation. They're all-weather roads - bad surface, but they'll pass.

H.M.Jr: I want you to take a look at the caterpillar method of transportation.

Parker: I think a fleet of those tractors at intervals along the way as trouble-shooters is what you'd want, because I really think from what I understand that the roads are in such shape that you can make good time with trucks. It's only the bridges and the waterways

Moffett: If you expedite it there on your ferries and control it

-21-

Parker: That's right.

Chen: The bridges are very

McFevre: Mr. Secretary, the roads are comparable to most of the roads in this country 30 years ago.

Parker: That's a very good description.

H.A.Jr: That wasn't very good.

McFevre: No.

H.A.Jr: But I get it.

Well, why don't you - would you like to talk some more?

Parker: Yes.

H.A.Jr: And I could see you people again either 2:30 or 3:30 depending on which is more convenient to you. You (Moffett) want to take the four o'clock train?

Moffett: No, I think I'll stay overnight.

Parker: Well, I ...

H.A.Jr: You want to take the four o'clock train?

Parker: I'm anxious to get back on the first train I can.

H.A.Jr: Well, get back at 2:30.

Now, I told these people without having talked to you (Chen) - they're going to work very hard; you wouldn't want to insult their feelings and move English gasoline over this system. I mean if after it's all worked out and they help you organize a transportation system - you're not going to hurt their feelings. They're very sensitive, you know.

Chen: I know. Want a little business. I've done - these two friends are my customers. Did a good year's business with them.

Parker: Yes, sir.

-22-

H.M.Jr: Well, I also said this is a time that people - China won't forget her friends, and her friends now. Is that right?

Chen: That's right.

H.M.Jr: Well, supposing you go in the room there, and then I can see you again at 2:30. But I think that - and I think you'll want to sit down and get down to more detail with them.

Friday
October 7, 1938
11:59 a.m.

HMJr: Hello.
Operator: It'll take about five minutes to get Mr.
Rentschler.
HMJr: O. K.
O: All right.

12:09 p.m.

HMJr: Hello.
Gordon
Rentschler: Hello, Henry.
HMJr: How are you?
R: I'm all right. I just - ah - didn't want to
bother you; I wanted to call you up and tell
you we liked our new depositor.
HMJr: Oh. (Laughs)
R: That's very nice of you and we all appreciate
it, Henry.
HMJr: Well, that -
R: very nice if you did - for you to do
that for Randolph.
HMJr: Well, I did it - ah - only for Randolph in a
sense that - ah -
R: Well, that was very nice.
HMJr: That - ah -
R: Well, you were his first account.
HMJr: Really?
R: Yeah, yeah. You were Randolph's first account
so that you've got a special place.

- 2 -

HMJr: (Laughs)

R: But it was very nice for you to do it, Henry.

HMJr: Well, lots of people write pretty letters but this was a little more tangible.

R: Ah the - ah - other thing I wanted to tell you is that during the time that the brake was on -

HMJr: Yeah.

R: - we came out pretty well. We've spent about a hundred and twenty-million dollars in your Governments and got a pretty nice position back.

HMJr: Well, isn't that fine.

R: And I think we were the only buyers along with the Federals.

HMJr: Well, you got a nice profit then.

R: But if you notice our - yes, we have. If you noticed our figures went up from about 525 to around 650 and that's what happened.

HMJr: And your deposits are up, aren't they?

R: Yes, deposits are up. Yes, we were up at all time high on deposits.

HMJr: You - had you been above two billion before?

R: Ah - we had been up to two billion in total but that was because of a lot of things. See, we used to have 200 millions of acceptances that came in.

HMJr: But it's nice to be a two billion dollar bank?-

R: But this is the first time we've had - see, this time we had a billion eight hundred and thirty-two millions in deposit.

HMJr: Well - but I mean your - the total -

- 3 -

R: Yeah. And then the totals - our totals went over two billions, you see.

HMJr: Very nice.

R: But this gave us a chance to get back up and it's - it's worked out pretty darn well because we were all ready for this; as you remember I told you the first part of September -

HMJr: Yeah.

R: - we'd - during the high market in August we had gotten ourselves in pretty good shape and we put this whole hundred and twenty-five million we had left back in.

HMJr: I see.

R: And now it's worked out very nicely.

HMJr: Well, I congratulate you.

R: Yeah, it worked out very well. Ah - everything else going all right, Henry, is it?

HMJr: Ah - I think so. Ah - I'm interested to see what business does this week, now that they can take their mind off Europe and put their -

R: Yes.

HMJr: - mind on their own business.

R: Yes. Well, of course the calmness that's settled down over here is unbelievable.

HMJr: Yeah.

R: With the fact that Europe is out of everybody's mind, why people are either not thinking or else they are thinking about their own business.

HMJr: Yes.

R: But industrial business is coming along a little bit better especially out through the middle west.

HMJr: Fine.

- 4 -

R: I think the figures that - the stuff we've been giving you is just - is proving to be just exactly right.

HMJr: Well I hope we have a good Fall.

R: Yes. I think we're moving along - not too briskly but we're moving along pretty well.

HMJr: Good.

R: Well, all right, Henry, it was nice to chat with you and thanks very much for what you did for Randolph because he appreciated it and all the rest of us are delighted to have you in.

HMJr: Thank you so much.

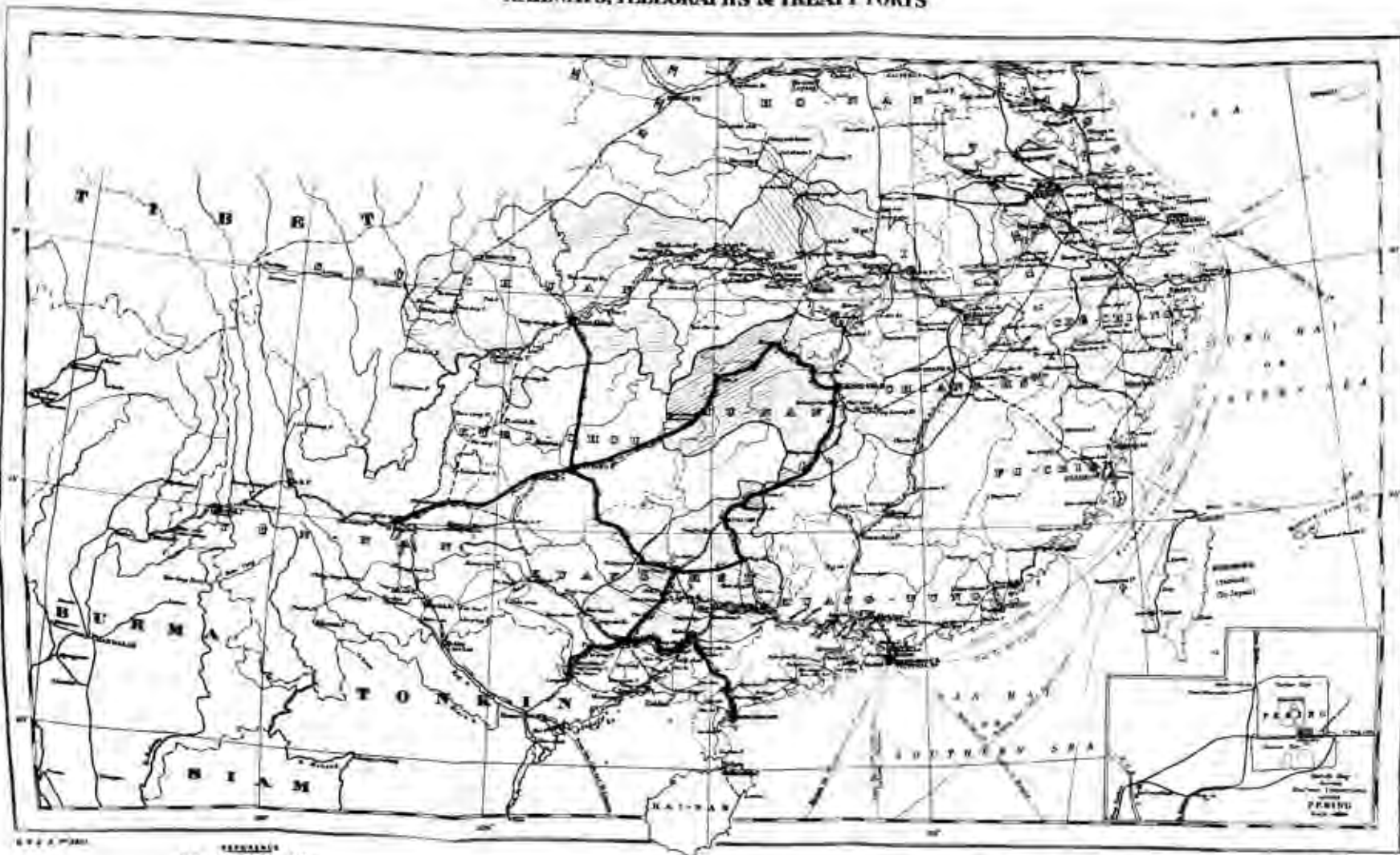
R: Byebye.

HMJr: Goodbye.

MAP OF CHINA

NEWING

RAILWAYS, TELEGRAPHS & TREATY PORTS



G. & A. P. 1881.

LEGEND
 - - - - - Telegraph Lines
 - - - - - Railway Lines
 - - - - - Treaty Ports
 - - - - - Other Ports
 - - - - - Other Places
 - - - - - Other Lines
 - - - - - Other Symbols

Scale 1:1,000,000
 1 inch = 63 miles
 1 centimeter = 0.39 inches



Notes
 Important Junctions in Europe
 Indicating Direction of Present Routes
 Indicating Direction of Future Routes
 Showing Approximate Means of Passing Areas
 Text of Report

Regraded Unclassified

ALL POSSIBLE CHINESE AGREEMENT

October 7, 1938.
2:55 p.m.

Present: Mr. Taylor
Mr. Haas
Mrs Klotz
Mr. White
Mr. James Moffett
Mr. Chen
Mr. Mau
Mr. Ren

Chen: We'll have the figures very soon. Mr. Moffett suggested, in order to take up this question we'd have to get in touch with some mechanical engineers to go into the trucking, and it's probably best to go to New York and have a very quiet meeting and exchange views further on this question of management and equipment.

H.M.Jr: Well, I think that would be fine, because Mr. Moffett's going to see that you get full value and he says he's ready to put the entire purchasing power of his company behind you, so that you'll get just as good a price as they can get for themselves; I mean by putting all of their purchasing power behind you, they'll do the best to get the trucks for you just as near cost as possible, which will make a lot of difference. And he's going to do everything he can to help you. And I'm sure that Mr. - the Standard Oil of New York will do the same; they'll do the same thing. And with those two people helping you, why, I don't see how you could be in better hands.

And from what Mr. Moffett tells me I think it would be a good idea if you did go up and spend a day or two in New York and then maybe spend - if they spent Monday and Tuesday up there

Moffett: Yes, I'll get this crowd for lunch, or something. Probably take it up and talk it over, then have a second meeting after the automobile people have had a chance to work on it next day and boil it down in black and white and give them a plan.

H.M.Jr: Fine. Is that making

-2-

Chen: Yes, that will be all right.

H.M.Jr: That's going ahead about as fast as we can.

Chen: Yes, yes.

H.M.Jr: I think we may get the transportation company going before you've got the tung oil ready.

Chen: I'm thinking to cable to Dr. Kung today to purchase all the oil he can and prepare for this service. We have some trucks just now they can make use of and we will have this oil moved as fast as we can to the seaboard.

H.M.Jr: Get it started.

Chen: Get it started.

H.M.Jr: What time of year do they collect these nuts? What time of year do they collect them?

Ren: Right now.

H.M.Jr: Right now? This is the right time.

Ren: Yes, right time.

Moffett: I understand that these trees look a good deal like an apple tree.

H.M.Jr: Oh, do they?

Moffett: And they leave in the fall, bear nuts, and they're not an evergreen.

H.M.Jr: So they're doing it right now.

Ren: The dry nuts. Now they're gradually crushing them, turning them into oil.

H.M.Jr: Well, then, they ought to be getting busy, oughtn't they?

Chen: Oh yes.

H.M.Jr: What?

-3-

Chen: Fine.

H.M.Jr: Can you think of anything else, Mr. Moffett?

Moffett: Just the question of delivery of trucks and all that - we can help expedite. I mean maybe some of the oil companies have got a lot of orders in that they can slow up on and give them the right-of-way - Ford or Chrysler or whoever's got anything - General Motors, or all of them - to get quick delivery.

If these gentlemen are coming up there on Monday - why, if we can consider that fixed

H.M.Jr: Yes.

Moffett: I'll give a luncheon and get these gentlemen from the automobile companies and we'll have our oil operative in and sit down and go to work right off.

Chen: We'll try to leave here about eight o'clock and reach there about 12:30.

Moffett: All right, we'll figure on lunch about one o'clock. Where will you stop?

Chen: I don't know.

Moffett: If you can call me when you get in, I'll tell you where to meet us for lunch. I'm in the Chrysler Building.

H.M.Jr: They'll most likely want to stay maybe at the Commodore or somewhere which is right near the Chrysler Building.

Moffett: Well, I thought I'd try to get a room at the Racquet Club - private room where we can get lunch or something.

H.M.Jr: Have you given them your address?

Moffett: No. I will. (Writes it down)

H.M.Jr: All right.

Moffett: Just call me.

-4-

Chen: Fine.

H.M.Jr: Well, I think what we'll do is, if Mr. Chen wants somebody from the Treasury to go up, we'll be glad to have somebody go up with you. Would you like somebody to go up? Huh?

Chen: (Nods no)

H.M.Jr: You're all right. All right, fine.

P A R A P H R A S E

A telegram (No. 608) of October 7, 1938, from the American Embassy at Peiping reads substantially as follows:

Reference is made to the Embassy's telegram No. 605 of October 6, in regard to the announcement by the President of the Federal Reserve Bank of a revolving foreign exchange fund.

Apparently it is the general intention to force the actual rate of the new bank's issue and other local currency toward the official rate of the yen which is one shilling two pence. It is likely that from the beginning the bank has not had in mind selling (?) exchange against its notes upon demand and the Japanese authorities probably do not intend to put a system into effect unless that system becomes coordinated with the one in existence in Manchuria and Japan at the present time. The plan is presumably to force the above mentioned rate in the direction of the official yen/^{rate}by the time the new currency is to become the only medium of financial control in North China which is March 10, 1939. As the clients of the foreign banks eventually will find it necessary to carry on their financial affairs in terms of the new currency the result of the withdrawal from circulation (which is proceeding in the Peiping area) of the notes of the National Government will naturally have the effect of inclining the banks to cooperate to a certain extent with the plan of the Japanese. It is probable that the Japanese will

be

-2-

be ready to accomplish their foreign exchange control plans by exercising their control of the customs, or in other words, of foreign trade.

Today's bank rates for United States dollars are selling 590, buying 561. An American banker states that this return to approximately the previous level reflects the general belief in banking circles that the new move by the Federal Reserve Bank has no immediate significance for foreign exchange operations. He said that no notification had been sent by the local authorities to the several interested banks and that the action would remain without real significance until such time as the North China authorities took concrete steps to cause all exchange transactions to be effected through the Federal Reserve Bank. He believed that the tendency would be toward development of a situation similar to that prevailing in Shanghai, where official foreign exchange allotments are on the basis of one rate but most deals are effected in the open market.

893.5151/514

RECEIVED
JUL 11 1950
U.S. DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE

Friday
October 7, 1938
3:49 p.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello. Hello.

Homer Cummings: Hello, Henry.

HMJr: How are you?

C: Grand. What can I do for you?

HMJr: It's in regard to this fellow Boyd - ah - that Lamar Hardy brought to our attention -

C: Yeah.

HMJr: Are you familiar with this?

C: Well, I heard a little about it.

HMJr: Well, the point is we've started an investigation; the fellow used to be with us, you see?

C: I knew he did.

HMJr: And now he's over with you. And I understand that it's your wish that we continue the investigation and complete it.

C: Yeah.

HMJr: Now, that - I'm more than willing to do that but our boys are - wanted to be double sure on account of the unfortunate experience we had once before - that this is entirely agreeable to you personally.

C: Oh yes. Ah - in a way I'd prefer it.

HMJr: Well -

C: And ah - ah - my thought however was that it should be done very cautiously for the first - until we got some additional facts.

HMJr: All right.

- 2 -

C: And I would be glad if your man - whoever has charge of it, Irey or whoever is running it -

HMJr: Elmer Irey.

C: - would ah - would ah - be in contact with Jim Morris over here -

HMJr: All right.

C: - so that they could each know what the other is doing and all about it.

HMJr: Well, Morris was over here this morning.

C: Yeah, that's right; I asked him to go over and talk to you.

HMJr: Fine. Well, I didn't see him, but McReynolds did - I was busy, -

C: Yeah.

HMJr: - with the Chinese. But I will tell Irey to continue and to keep Morris informed.

C: And - yes. And also, I think on the question of how far they should go along certain lines -

HMJr: Yes.

C: Ah - he'd better talk with Morris because Morris has got some stuff from Hardy that's a little - I guess a little fresher than he had at that time.

HMJr: Well, I'll - I'll tell Irey that he should work along -

C: Yeah.

HMJr: - but consult with Morris.

C: O. K.

HMJr: Is that agreeable?

C: Fine! Perfect!

HMJr: All right. That's the way it'll be.

- 3 -

C: All right.

HMJr: Thank you.

C: Goodbye.

REB

GRAY

London

Dated October 7, 1938

Rec'd 3:39 p. m.

Secretary of State,
Washington.

1139, October 7, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

The manner in which the crisis was met by the banking system is reflected in Wednesday's Bank of England return and to a lesser extent in the September weekly average statement of the clearing banks. As the Chancellor of the Exchequer put it in his speech at the Guildhall banquet to the banking community the city had "a piece of pre-war" in meeting an emergency. There was contrast in the preparedness of the banking system in the past weeks and in August 1914 in existence of a highly organized foreign exchange market and the exchange equalization account added to the smoothness with which the situation was met.

(END SECTION ONE)

KENNEDY

CSB

223

PLAIN

London

Dated October 7, 1938

Rec'd 3:55 p. m.

Secretary of State,
Washington.

1139, October 7, 5 p. m. (SECTION TWO)

The Bank of England return showed another increase of £4.9 million in the note circulation after the £21 million increase in the crisis week bringing the total to £505.7 million which is a wholly exceptional level except for Christmas week. This withdrawal was largely the result of the deposits banks' precautions in placing additional currency in the tills of their branches in case of disorganized transport facilities and to meet expected increased withdrawals by their customers.

To meet the emergency demands for cash the Bank of England was able to increase ways and means advances to the Treasury in connection with the distribution of interest payments on 2 1/2 and 3 1/2% conversion loan while Government securities in the banking department were up by £9.1 million and other securities were up by £2 1/2 million reflecting the increase in discounts and advances. Bankers' deposits were actually higher by £9.7 million.

The

REB

2-#1139, From London, Oct. 7, 5p.m.
(Sec. Two)

The average weekly statement of the clearing banks for September reflects the exodus of capital to New York, deposits being down by £29 million. A drop of £15.8 million in bills reflects the extent to which the banks made good the withdrawals of their customers by staying out of the bill market. Cash holdings for the month showed a decline of £7 million but the ratio to deposits was down only to 10.3% as compared with the rather higher than usual 10.5% of the previous month. In spite of diminished business activity advances were reduced by only £1 million. Investments continued to show an increase as in both July and August and now stand above the level of a year ago.

Several British merchant banking firms give the same report to the effect that in their telephone conversations with the continent they gather that the sentiment is becoming widespread (a) that values will rise on Wall Street and (b) that the pound is by no means undervalued in terms of dollars at the present level. These views are in general shared by the city. The city also is inclined to believe that the French authorities do not really know yet how to employ the financial powers obtained but

REB

3-#1139, From London, Oct. 7, 5p.m.
(Sec. Two)

but are determined not to permit their remaining war chest of gold to be reduced appreciably.

The exchange market was relatively quiet today. The dollar opened offered at 4.80 1/2. A two-way market developed for a while but near the close the dollar became bid and the British authorities gave support to sterling at 4.79 1/2. Gold fixing on 497 bars as at 1D. premium indicating the emergence of a hoarding demand. Gold coin likewise was in demand. The franc has remained steady but under pressure. The forward rates have been nominal at 2 and 5 respectively. In terms of the recent past today's volume of foreign exchange trading has been very small.

(END MESSAGE)

KENNEDY

CSB

PARAPHRASE of Telegram Received

FROM: American Embassy, Paris

DATE: October 7, 4 p.m.

NO.: 1715

FROM COCHRAN.

Despite some recurrence of worry over the German situation, the Paris exchange market seems quieter today. Rentes are weaker and the French stabilization fund continues to have to meet a fairly steady demand for sterling.

An evidently inspired report was carried by L'INFORMATION that the next Bank of France statement will show a diminution of almost three billion francs in note circulation. An unfavorable balance of 881 million francs for September was shown by the French foreign trade, making an unfavorable balance of 12 billion, 613 millions for nine months compared with 13 billion, 332 millions for the same period in 1937.

END OF SECTION ONE.

SECTION TWO - PARAPHRASE.
No. 1715 of October 7, 1938 from Paris

A communique has been issued by Prime Minister Daladier in which the public is warned against believing current rumors about what action the Government intends to take under its new authority. The communique indicates that in order to have time for thorough study, considerable delay should be expected before plans are announced. This afternoon I was informed by Rueff that over the weekend no action will be taken. I have given Rueff my address where I will be in Basel. I am going to Basel tonight, as the BIS directors meet there this weekend.

END OF MESSAGE.

WILSON.

EA:LWW

321

Treasury Department
Division of Research and Statistics

Date Nov. 16, 19 39

To: Mr. McHugh

From: E. Kailey

Attached two charts were originally sent to Mr. Hanes from Mr. Haas as attachments to a budget study memorandum dated Oct. 7, 1938 (copy of memo to Mr. Hanes attached).

These same charts were used also by the Fiscal Policy Committee in connection with their study of the amount of national income required to balance the budget, and the two attached charts were undoubtedly left with the Secretary at one of the meetings of the Fiscal Policy Committee.

*If you do not wish to keep
the copy of memo to Hanes,
then return it to me.*

Mr. Jones

Mr. Ross

(A Hypothetical Study)

In connection with your study of the budget problem, you expressed an interest in the amount of money which the Federal Government would receive under its present laws at various assumed levels of business. Since revenues are dependant upon many other factors than the level of industrial production, it was decided that for revenue estimating purposes it would be necessary to use the broader concept of national income paid out and then to attempt to translate levels of national income paid out into the amounts of Federal revenues which might be associated with these respective levels. As a guide to the trend and magnitude of the national income we used the President's statement in his message to Congress on April 14, 1938, that the national income "ought to rise in the next decade to more than one hundred billions".

Without attempting to forecast what the national income will be, we accepted the arbitrary assumption that it will rise gradually to a level of \$100 billions during the next decade. The time at which the \$100 billion level of national income is reached has an important influence upon tax receipts as many of them are affected by population growth. Since such a level of national income could be achieved either by price inflation, by an increase in production or by some combination of these factors, we had to make an arbitrary assumption regarding the movement of prices in order to proceed with our revenue estimates. We have therefore assumed that the wholesale price level will rise gradually during the next decade to the 1928 level. Having established the level of national income and the price level and by assuming that the composition of the national income remains as in recent years, we have estimated from past relationships the level of the Federal Reserve Board index of industrial production which would most probably correspond to the assumed price levels in each of the years during the next decade.

With these arbitrary assumptions of national income, price levels, and the Federal Reserve Board index of industrial production, we have calculated the total receipts of the Federal Government to general and special accounts (funds not earmarked for trust funds) under the present revenue laws. These estimates assume that the present corporation

income tax and the temporary excise taxes are continued in their present form. Receipts under Title VIII of the Social Security Act and under the Carriers' Taxing Act have been estimated on the basis of the progressively increasing rates provided for by these acts.

The results of this study are presented in two charts:

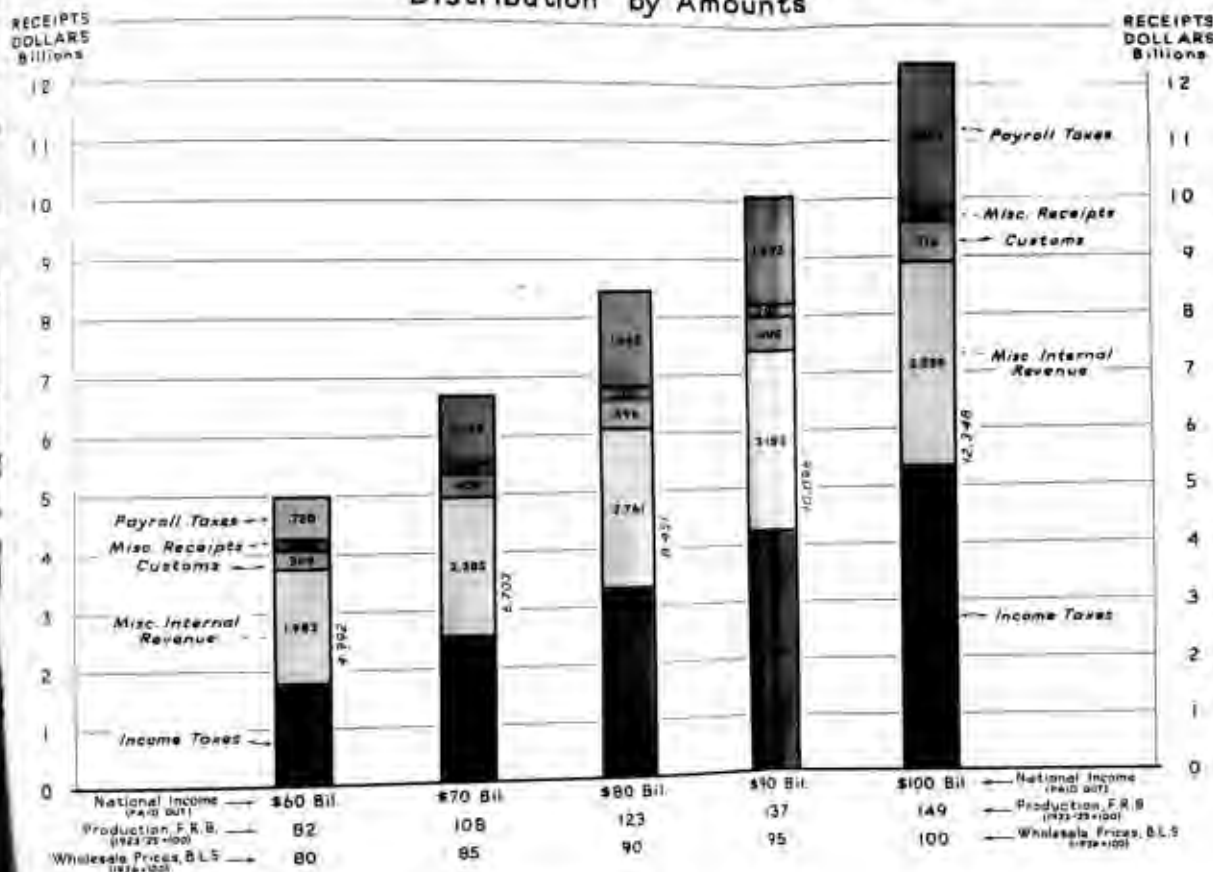
Chart 1 presents in graphic form the composition of the total Federal receipts at each of the assumed levels of national income.

Chart 2 presents the same data as Chart 1 but excludes from total Federal receipts the taxes levied under the Social Security Act, the Carriers' Taxing Act and the Railroad Unemployment Insurance Act since in the long run these tax collections will probably be paid out in benefits and will not be available for general governmental expenditures.

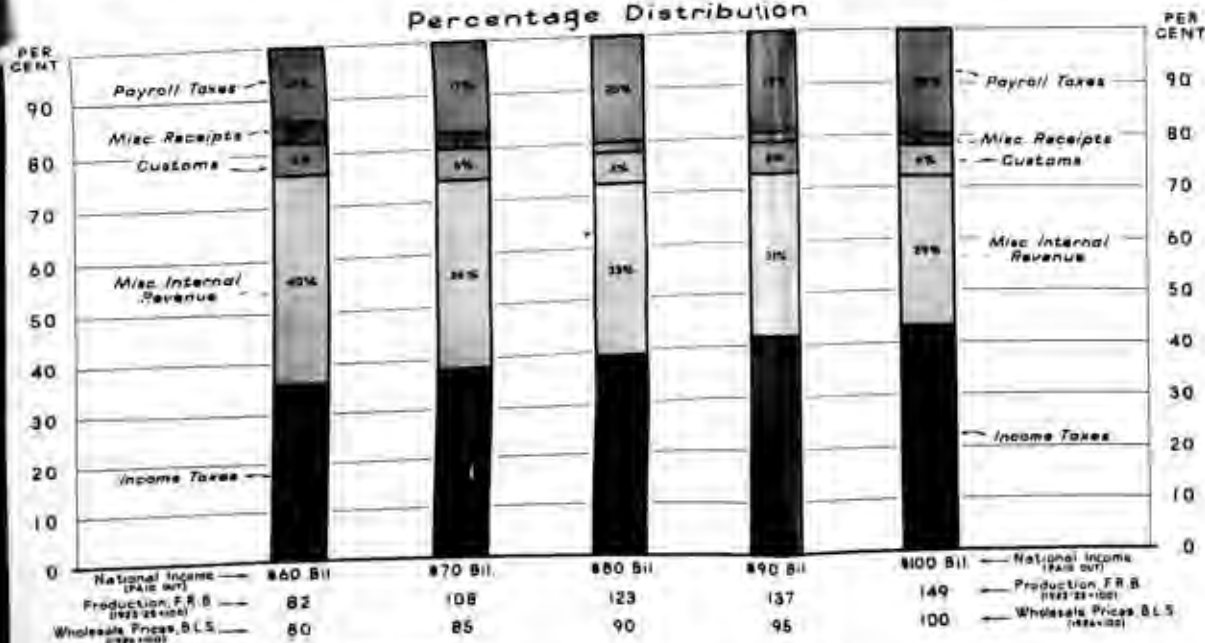
Attach.

ESTIMATED FEDERAL RECEIPTS* BY PRINCIPAL SOURCES, AT VARIOUS ASSUMED LEVELS OF NATIONAL INCOME†

Distribution by Amounts



Percentage Distribution

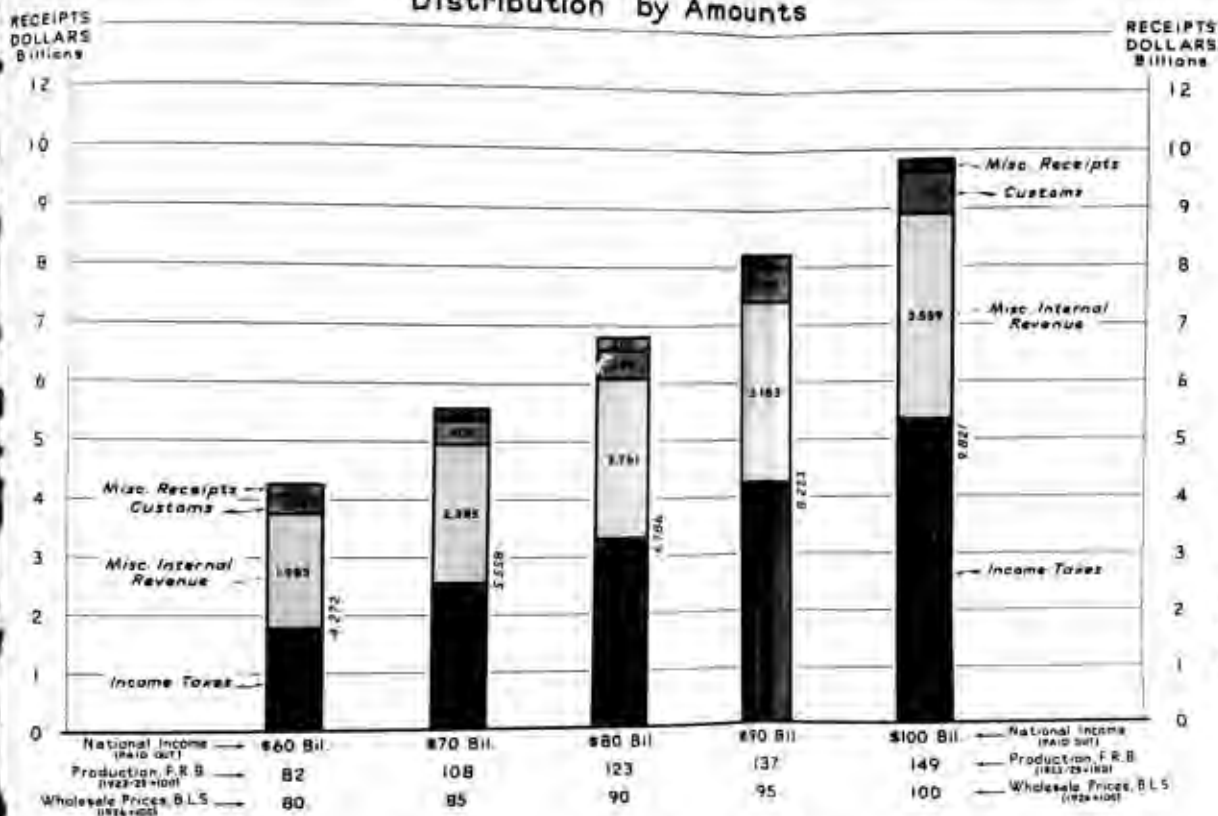


* General and Special Accounts.

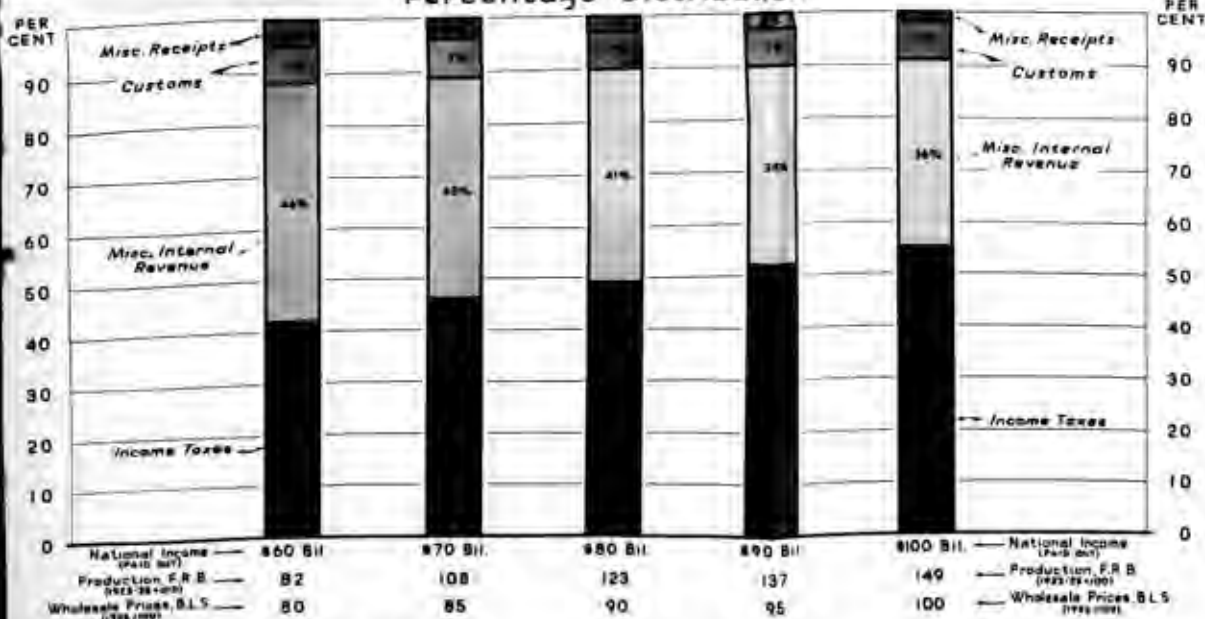
† These are not estimates of the level of national income in any particular future year. The estimates of receipts are based on the wholly arbitrary provision that the national income will increase gradually to \$100 billion in about a ten-year period. The estimates are based on the present statutes, assuming the elimination of the corporation income tax and the temporary excise taxes, Payroll taxes (social security and railroad retirement) are estimated at progressively increasing rates during the next ten years as provided for under present law.

ESTIMATED FEDERAL RECEIPTS* EXCLUDING PAYROLL TAXES, BY PRINCIPAL SOURCES, AT VARIOUS ASSUMED LEVELS OF NATIONAL INCOME*

Distribution by Amounts



Percentage Distribution



* General and Special Accounts.

* These are not estimates of the level of national income in any particular future year. The estimates of receipts are based on the wholly arbitrary premise that the national income will increase gradually to \$100 billion in about a ten-year period. The estimates are based on the present statistics, assuming the extension of the corporate income tax and the temporary excise taxes.