

DIARY

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September 27, 1939
10:40 a.m.

HMJr: Hello.
Operator: Mr. Harrison is talking to Chairman Eccles.
HMJr: Well, when he's through with that I'll talk to him.
O: All right.
HMJr: Thank you.

10:44 a.m.

Operator: Go ahead.
HMJr: Hello.
George Harrison: Good morning, Henry.
HMJr: Hello, George.
H: I'm sorry I wasn't here when you called, but I just got back from Washington on the midnight.
HMJr: George, I want to put up a hypothetical proposition to you. If I should ask the Federal Reserve Bank of New York as fiscal agent of the Treasury to accept accounts for foreign governments, I would like to know what the answer would be, you see?
H: Well, my immediate off-hand answer, I'd like to check with our counsel -- would be that we would do it.
HMJr: You did it during the last war.
H: Yes,
HMJr: See?
H: I think we -- I know we did it for Gilbert who was agent general of reparations on a similar request.....
HMJr: Yes, you had an account as agent general of reparations for him.

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- H: Yes. And we did that at the request of the Treasury.
- HMJr: Right. Now the reason that I'm putting it this way - we had a little study made - rather than have you -- the other way, is if you did it this way then if I wanted to know from time to time what the accounts were doing, you'd feel free to tell me.
- H: I think I'd have to.
- HMJr: Yeah. Well.....
- H: And I think I'd have to have it understood with whoever made the deposit that that would be the fact.
- HMJr: Right. Right. Well, I had this in mind. Ah -- the way I expect to put it up to these fellows is this: If -- they both have asked -- at least, the British have asked me twice now whether they could open an account with you, you see?
- H: Yeah.
- HMJr: I'm going to say, if they wish to do it, it will be all right. I'm not going to tell them to do it, you see?
- H: No, I think that would be unfortunate.
- HMJr: I have no intentions.....
- H: But if they of their own motion ask you the question, then you ask me whether we will do it and I'll have to give you an answer. I'm -- all I'm giving you now is a personal off-hand/ I'd like to check the records.
answer;
- HMJr: Well.....
- H: There's just one other thing that I want to raise. I don't know whether the Federal Reserve Board now thinks they can intervene and tell us whether we will do a fiscal agency thing or not, but.....
- HMJr: Well, is that -- is that serious?
- H: No, I've had no -- I've had no official notice that they expect me to go to them about anything.

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HMJr: Well, as long.....

H: And until I do, I would operate the way we have.

HMJr: Right. Well, why raise it?

H: Well, you know, some of them will say they said something.

HMJr: Well, maybe we can help down here by telling them informally when we actually get ready to do it that we.....

H: Well, I was -- the reason that -- the real reason I raised the question is to express the hope that you do that regardless of the.....

HMJr: I will.

H:-- of the legality.

HMJr: But.....

H: I think it would be a great mistake to raise the legal question now whether they can do it.

HMJr: No, I wouldn't, but I'm just going to tell them informally when we get down to it, but I'd like to be in such shape that I can say to either the -- to any country who wishes to open an account, that they can do it under the following.....

H: May I call you back a little more definitely in about an hour. I'll get Logan and we'll.....

HMJr: Yeah.

H: Huh?

HMJr: Yeah. I -- yes. That would be nice. Now, I hear the bond market is acting nicely.

H: It's quite strong. Your sixty sixty-fives, which closed at -- at 21 last night are up to 28 steady pretty near.

HMJr: Grand.

H: She's very strong. We have no bids in.

HMJr: Yes.

H: And we have no orders to put any in.....

HMJr: Righto.

H:at the moment.

HMJr: O. K., George.

H: (Laughs) All right.

HMJr: Thank you.

H: First-rate.

September 27, 1939
3:02 p.m.

George
Harrison: I've looked into this matter further after getting
out our old files way back to 1917.

HMJr: Yeah.

H: And I found that during the war we opened an account
for the Government of the French Republic, the
Government of Great Britain and Ireland, and the
Royal Italian Government.

HMJr: Yes.

H: And except the deposits, most of which came from our
Treasury.....

HMJr: Yeah.

H: the credit of the other one, it was a
part of the proceeds of loans that were being made.
Other than those transactions and the one for
Colombia and Argentine, which we did at the request
of the Treasury, because we didn't have any central
banks down there.....

HMJr: Um-hm.

H:are normal and usual costs of operations we
wouldn't receive deposits from foreign Governments.

HMJr: Yeah.

H: On the theory that commercial banks are amply quali-
fied to handle those accounts.

HMJr: Yes.

H: But just because of unusual or disturbed conditions
such as now prevail, the Treasury for reasons of
public policy or reasons of its own, should ask us
as a fiscal agent of the Government to receive de-
posits, and I think we should do so.

HMJr: O. K.

H: I'd like to mention though before it goes too far
that I really think.....

HMJr: Yeah.

H:that we ought to have a proviso somewhere along the line -- a warning flag -- that depending upon the kind of transactions, we might have to charge them enough to cover our actual cost. For instance, in these airplane operations, they are very difficult - technical.

HMJr: Yeah.

H: Payments that are made upon the presentation of difficult documents.

HMJr: Well, that's all right.

H: But I was just saying that to you.....

HMJr: Right.

H:now because if it got to any huge sum.....

HMJr: Yes.

H:rather than for us to send you a bill, we ought to send the other fellow a bill.

HMJr: Well, if you're going to send a bill, by all means send it to the other fellow.

H: (Laughs)

HMJr: All right, George.

H: And I've also looked up the memorandum of agreement that I have with the Federal Reserve Board about our foreign operations.

HMJr: Yeah.

H: And there's a clause in that memorandum which says, in effect, that the fiscal agency -- agency relationships is a matter that will have to be worked out between the Board and the Treasury.

HMJr: Yeah.

H: In other words, they leave us out. So I don't feel that I have any obligation there.

HMJr: Right.

H: That that's up to you and the Board.

HMJr: You mean, as to this particular transaction?

H: Well, that -- that applies to any fiscal agency transaction.

HMJr: Yeah. (Laughs) All right. My wife just came in.

H: Well, I wish you'd give her my very warm regards.

HMJr: I'll do that.

H: First-rate.

HMJr: Okey-doke.

H: Henry.....

HMJr: Yes.

H:I think when the time comes and in order to avoid anything that it would be orderly if you would write me a letter and let me answer you.

HMJr: Yeah.

H: Just so that there won't be any question.....

HMJr: Oh no, I'd do it formally.

H: Yeah. All right.

HMJr: Yeah. Thank you. Thank you.

September 27, 1939
3:11 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Hello, Marriner.

E: Hello, Henry. I'm sorry to hear you've been ill.

HMJr: Well I haven't been feeling well and I just wanted to say it wasn't anything that you did to me.

E: Well you -- you.....(laughs)

HMJr: You're not responsible for my illness. (Laughs)

E: Well, I'm perfectly sure of that. I.....

HMJr: If you read the article you might have thought so.

E: Well that God-damned article - now, pardon me for swearing, but I was just dropping you a note today. I knew you were home ill and I didn't want to bother you.

HMJr: Yeah.

E: And I was just dropping you a note to -- and -- to say this to you.

HMJr: Yeah.

E: That I -- I've been distressed -- about it, both last night, when it was first called to my attention -- it just -- just -- it just took my appetite away because it's so thoroughly foreign from the truth.

HMJr: Yeah.

E: Now, when I can't cooperate -- and by cooperation I don't understand that to mean that -- that you expect me to always agree.

HMJr: No.

E: You -- you do expect me to talk to you and to talk to those interested frankly, which I always try to do.

HMJr: That's right.

E: And -- and then if we have a perfectly honest disagreement about some detail in operations that -- that -- that you expect me to assume my responsibility just as I would expect you to.

HMJr: That's right.

E: Now -- and -- when they bring the question of -- of personal feelings into this thing as they do.....

HMJr: Yes.

E:and they try to make it appear that -- that you and I have a personal fight.

HMJr: Yeah.

E: It -- it just upsets me terribly and particularly to have it done at this time because, so far as I am concerned, there isn't anything further from the truth.

HMJr: Well, you and I -- the only time we've seen each other was a week ago, today.

E: Yeah, last Wednesday. That's right. Well, I was in there the morning you got back.

HMJr: Well, but I meant -- let's say that's the last time we.....

E: That's right, last Wednesday.

HMJr: It was a most amicable meeting. I don't know we -- everybody jollied - you and Jesse had a little argument, but everything was very - most friendly as far as you and I were concerned, and we've had no words since.

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E: Not -- not the slightest word, and the only -- the only thing that came up at all that -- that -- it wasn't between us -- that made it appear apparently to -- to some of you people, and maybe to some of us, was the Government bond market from the time that we withdrew from the market -- that is, we didn't withdraw; we never said we were withdrawing; we merely didn't -- we decided not to put bids in.....

HMJr: Yeah.

E:for the time being and see what the market did. And that was last -- last week, last Tuesday.

HMJr: Yeah.

E: A week ago, and -- and we stayed out of the market for two -- nearly two and a half days.

HMJr: Yeah.

E: In that time the market dropped -- I'm speaking of the long bonds -- from 101 to 99.

HMJr: Yeah.

E: It dropped -- it -- 101½. It dropped two and a half points in a little over two days and with practically no selling.

HMJr: Yeah.

E: I mean, there was very little selling, and we found that the dealers who had been slightly long went short.

HMJr: Yeah.

E: And we took them out; we bought 60 million of their bonds at the high point because -- because Randolph and George advised us to so that they wouldn't be dumping these bonds on the market. So we took them out, supposedly 40 million, and when we woke up we found they had sold us 60.

HMJr: Yeah.

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- E: See? We take them out and then we find that as soon as -- as soon as they find -- when no bids are in and we are apparently out and they can look down our throat.....
- HMJr: Yeah.
- E:then they start putting out propoganda that the market is going lower and they start to do a little short selling.
- HMJr: I see.
- E: And we permitted that to happen until that market went down two and a half points.
- HMJr: Yeah.
- E: And -- and we -- the morning we went in we were having a real row with George on the phone.
- HMJr: Yeah.
- E: George was strenuously objecting. We were having a row among ourselves over here - couldn't possibly -- couldn't get together, and -- and finally I got a majority of the committee and I said -- and I put the vote and we gave the New York Bank definite instructions. And George voted against it; Leach voted against it. See?
- HMJr: Yeah.
- E: And -- and so we were thoroughly terribly divided. We couldn't -- we couldn't call the Treasury up and discuss the whole situation with them because while we were discussing it the market dropped a half a point here in 30 minutes. Well, we put this order in to buy and do you know what happened?
- HMJr: Ah.....
- E: That market went up a half a point, see?
- HMJr: Yeah.
- E: And we put - ah - authority in to buy up to 25 million.

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HMJr: Yeah.

E: And we got a million 300 thousand that day.

HMJr: I see.

E: We got a million 300 thousand and that market went right on up and the dealers started to cover. See?

HMJr: Yeah.

E: Showing that -- that that weak market was not justified based upon the opinion of the country as to the market....

HMJr: Yeah.

E:at all.

HMJr: Yeah.

E: That -- that there was very little selling made it appear that the Government was weak, that the Government bond market was weak, when fundamentally at those levels, it wasn't weak at all. Well, I -- I merely gave you -- gave you that

HMJr: I just called you up because I think it's an outrage to have articles like that when they are so far from the truth.

E: Well, what the devil can you do about it?

HMJr: You can't do anything about it.

E: Ah -- these damn -- these damn fellows, whether you're at war or not, it wouldn't make any difference what the emergency is, there are some of these columnists that -- that have no more patriotism or public interest than a -- than a traitor.

HMJr: No, no.

E: And I've thought time and again that if we'd absolutely refuse to see anybody we'd be better off, and then -- and I've tried that. I never have a press conference. I -- I try not to see people and damn it, that don't make any difference.

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HMJr: Well, as we've said before, a lot of people would like to see us have a real row.

E: Well, they're constantly trying to ferment one and -- and I -- I.....

HMJr: And we mustn't let it happen.

E: Well I'm not going to, as far as I'm concerned. I'm -- and I -- just as I told you, I was just going to write you a note and if you'd like to have it I'd like to send it but just.....

HMJr: I'd like to have it.

E: If you'd like to have it for the record.

HMJr: Oh, I'd be glad -- as long as you're going to do it, I'd be.....

E: Yeah. Well, I was just -- would have told you verbally, but I'd just as soon put -- put it in the form of a letter to tell you just how I felt because I didn't want to bother you knowing you were home sick.

HMJr: Well, if it's a nuisance, don't bother. This is all right.

E: No, no, it won't be any trouble at all.

HMJr: All.....

E: Now -- now this -- this -- you may be pleased at this market today. Have you gotten the report on it?

HMJr: Well not in the last hour.

E: Well now, it's -- it's up stronger than horse radish. (Laughs) The -- the Treasury that went down to 99.....

HMJr: Yeah.

E:are now up to 105.

HMJr: Yeah.

E: They're up sixteen thirty-seconds - a half a point today.

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HMJr: Yeah.

E: Yesterday they closed up eight thirty-seconds.

HMJr: Wonderful.

E: And we haven't -- didn't buy a single bond yesterday and we haven't bought a single bond today.

HMJr: Wonderful.

E: But they don't know when we're going in and we don't want them to know.

HMJr: No.

E: Because if they -- as long as they -- as long as they -- we're going to stay out just as long as -- as we can. We don't want to go in.

HMJr: Well just.....

E: But -- but if they start shorting a market.

HMJr: Yeah.

E: And they try to create a -- an untrue condition of -- of the market, I'd -- I -- and break the market down unjustifiably, then I feel that it's our business, if we have any responsibility at all to -- to do something about it. But as long as this market is -- is around its present levels certainly we want to stay out.

HMJr: Well just keep it in mind that the minute this thing has been good for four or five days we want to do a refunding.

E: Yes. Well, I -- personally, I think that you may well be able to do that by Monday.

HMJr: Good.

E: That what we're going to show this week -- now, our statement comes out Friday.

HMJr: Yeah.

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E: And that's as of Tuesday night.

HMJr: Yeah.

E: For that whole week.....

HMJr: Yeah.

E:we will have purchased around -- between seven and eight million only of -- of all bonds - both intermediate, and short and long, and we will have let thirty million of bills run off.

HMJr: Yeah.

E: Or our portfolio for the week will show a reduction over the previous week of -- of over twenty-four million.

HMJr: I see.

E: For this -- as of Friday.

HMJr: Yeah.

E: Now, if this week, which commenced yesterday.....

HMJr: Yeah.

E:we -- and that covers yesterday and today -- we have bought absolutely nothing.

HMJr: Yeah.

E: And if we can continue the rest of the week that way and we will show our bills run off again; of course it seems to me that -- that the -- that you should be able to do some financing here next week.

HMJr: Well, that's -- of course we'll watch it and I'll keep in touch with you.

E: Now I've -- I've talked to Randolph today; I talked to Dan yesterday - Randolph wasn't there - I talked to Dan the day before.

HMJr: Yeah.

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E: And -- and the --the thing that happened today that -- it appeared that we were crossed up and Randolph and Dan came over here and I -- I said, "Now, it's your fault as much as ours because you said you were going to come over every day and you said you'd keep in touch with us." And I said, "For two and a half days you haven't - you've had absolutely nothing to say."

HMJr: Yeah.

E: And I said, "Maybe we should have called you," but I said, "Let's call it -- let's say we're fifty-fifty here. Don't say that we're the only ones at fault. I think maybe we're both at fault."

HMJr: I see.

E: And so that's the way the thing was handled.

HMJr: Well they reported the conversation and I -- I'm sure that we won't have that trouble again.

E: Well, I -- take care of yourself.

HMJr: I'll do that.

E: And I'll be seeing you as soon as you get out.

HMJr: That's right.

E: All right. Thanks for calling.

HMJr: Goodbye.

E: Goodbye.

September 27, 1939

Present:

Dr. White
Mrs. Klotz

HM, Jr: Harry, I want you to do a job for me. Mr. Hanes has written me a letter in which he has set out his sort of tax philosophy for the coming year. See? And I did not show the President this letter or the one he had written me before, but I did show him this memorandum of September 27th.

I want you to keep this all very confidential.

This is the kind of letter which, sometime during the night, I had an idea I would write to Mr. Hanes. Something like this:

"My dear Johnnie:

"In reply to your letter and memorandum of -- date, I have had an opportunity to discuss this matter with the President.

"The President does not wish to have any of his Departments cooperate with any Committees on the Hill until after the neutrality legislation is out of the way and he hopes that there will be no Committee hearings of any kind.

"In discussing tax legislation for 1940, I find that the President and I see eye to eye."

That will have to be changed.

"Let me illustrate how I feel.

"It seems to me that Russia and Germany getting together is not so unexpected, because they had many things in common. Among them, one of the more important things is the fact that both wish to do away with the capitalistic system."

I am going to give you the name of a man up in

-2-

New York, been here since 1933 or 1934.

Incidentally, make a list of things Germany is doing to do away with the capitalistic system.

Dr. White: They certainly will modify it.

HM, Jr: The man in New York is the editor of German Economist, whom Mrs. Morgenthau has met and who is very brilliant.

"In order to keep the capitalistic system intact in this country under a Democratic form of Government, I feel that the Treasury can make a real contribution through its tax program and tax recommendations."

I want to get over a very important idea.

"Let me give you an example: You, yourself, brought to my attention that all of the tobacco growers in North Carolina have lost their markets, due to the war. They look to the Federal Government to do something to help them. It may cost in the neighborhood of \$50,000,000 to tide them over this difficulty. If we don't do something to help them, these farmers are apt to go either Communistic or join organizations like the Klu Klux Klan or the Silver Shirts. I know what I am talking about, because I was in the first line trenches assisting the embattled farmers during 1933. These farmers who have lost their market due to a European war naturally will have their discontent aggravated when they see that the steel industry, due to European war conditions, is going to make extraordinary profits and if the Federal Government finds it is necessary to take \$50,000,000 to help out the tobacco farmers of North Carolina, would it not be only fair to get this money by taxing the steel industry, for example, on their excess profits?

"I realize that I have over-simplified the case, but it is such a good illustration that I am using it.

"Furthermore, in discussing this matter with the President, he said that he felt that if we could take a plebescite in this country as to two alternatives, one

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between fixing prices by fiat or through taxation, the vote would be overwhelmingly in favor of doing it through taxation. He and I both feel that the taxes in the middle income groups should be increased and that the exemptions in the lower brackets should be lowered.

"The only reason I am writing you this letter is that you, yourself, took the initiative in writing me. After reading my letter I will be glad to sit down and discuss the matter with you in much greater detail."

I got the idea in the middle of the night. I know of no better way to illustrate it. Here are the tobacco fellows, whom he wants us to help, but steel should go on making extraordinary profits. Tobacco suffering from the world war; steel making profits on account of the war.

Dr. White: That's a very important letter, not so much to Hanes. I was thinking of a statement of your position.

HM, Jr: In talking to Mrs. Morgenthau -- this I got during the middle of the night -- they have asked me to talk at the New York economic thing, and she said that she does not want me to take on any additional worries at this time, so I am going to tell them no. But I want you to be working on a statement, a speech, for me entitled "Roosevelt, the Friend of the Capitalistic System."

What I have in mind is this: just the way Roosevelt made himself the friend of peace, and based, for instance, on the Fortune article, the poll Fortune made of the business people. Nothing they object to when you take this poll. I don't know, we will just call it that, but "Roosevelt Administration: Friend of the Capitalistic System," and the way we have saved it. And, furthermore, the thing I thought of during the night: that a few individuals, very rich individuals, have left their pocketbook so blindfolded that they will go to any lengths to crucify Roosevelt whereas, looking at it, greatest good for the greatest number, he's the best friend they have got.

Somebody ought to make this speech and I would like to make it and I am going to turn down Burgess and

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Baillie because I don't want a fixed date.

Dr. White: You still haven't talked to the Press -- the Press Club.

HM, Jr: Oh!

Dr. White: There's plenty of opportunity. It would be a pleasure to try to write it, because I agree with you 100%.

HM, Jr: But I don't have to magnify this thing.

Dr. White: No. I have your thought very well. As I said, I think this is a very important statement of position, quite independent of Hanes, and, therefore, I think

HM, Jr: You read Kiplinger, for instance.

Dr. White: I would like to work on it with some care.

HM, Jr: Kiplinger announces no tax legislation; nothing on profits. Hanes, two weeks ago, went down to the press room and made a statement that the thing to do was to encourage the profits to come out of the cellar. Now, I would like to have the honor of enunciating the policy of the Administration first.

Dr. White: Then I think we will shape the letter, which may mean just taking out one or two sentences, without having read his letter, that both could be published. The importance of this lies either in the record or as a statement, rather than the letter to Hanes.

HM, Jr: Maybe I don't want to tip my hand to Hanes right now.

Dr. White: That's why I will have to read his letter. The important thing is not the answer to Hanes; that's of secondary importance.

HM, Jr: And you are quite right, I did promise -- I may give a talk before the Press Club. I promised it

-5-

to them, for two years, the next time I made a speech it would be before them. But I think there is a great thing to be done here for Roosevelt and the Administration and Democracy. But isn't that a nice illustration of the tobacco fellows in North Carolina and the steel fellows?

Dr. White: Not quite a logical position that if you don't do something for them you should not do something for steel, but that is not the consequence you are drawing. I think I would twist it a little, -- both points are good -- the need -- it has to be done for them.

HM, Jr: He comes in and wants me to do something for the tobacco fellows!

Dr. White: I did not get that from the letter. Excuse me.

HM, Jr: No. He wants us to do something. At the same time he does not want us to do -- to tax the steel industry.

Dr. White: You are 100% right. Difference between flexibility and rigidity; difference between adaptability and strength.

HM, Jr: And the President, when I said to him about excess profits, increase the middle group and lower the brackets on the lower income group, "Perfect tax program; simple; perfect!"

Mrs. Klotz: If I were going to make a speech, I would not answer his letter before.

Dr. White: Let's write both.

oOo-oOo

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: September 27, 1939, 11 a.m.

NO.: 1072

FROM SECRETARY MORGENTHAU FOR THE AMBASSADOR.

Further reference is made to your telegram No. 1591. As of September 1, 1939, payments from the Stabilization Fund to Mr. H. Freeman Matthews have been approved, at \$50.00 a month; this information is being passed on to Cross.

HULL
(FL)

EA:LWW

GROUP MEETING

September 27, 1939.
9:30 a.m.

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

H.M.Jr: Ed?

Foley: John Cahill called up yesterday and said that he wanted some cooperation from us in connection with the Lepke trial. A dope peddler by the name of Katzenburg is in the detention house in New York, having been convicted of peddling dope. He has quite a long sentence and he has offered to testify against Lepke.

H.M.Jr: Lepke?

Foley: Lepke. John, of course, is anxious to get as long a sentence as he can get because of the rivalry up there and he doesn't want to offer any help to Katzenburg, if we are not going to go along with him.

Elmer Irey and Harry Anslinger and Herbert Gaston and I are going to have a conference at 10:00 o'clock. We don't want to have any difficulties with the United States Attorney in New York. On the other hand, we don't want to be turning a dope peddler loose.

H.M.Jr: Look out you don't find yourselves "Lepke with the bag."

Foley: There wasn't any jaundice on that one.

- 2 -

H.M.Jr: You boys will have to watch your step. When it gets into who gets the longest sentence, the U.S.D.A. or the New York D.A., that is kind of fast company.

Foley: While he was on the phone, I told him what we were doing in Marcel Rochas' case and he was very pleased.

H.M.Jr: I took the liberty of changing that cable.

Foley: I think it was a good change.

H.M.Jr: After I read the cable, it kind of looked as though we would be pleased if the Attorney General did do something, and from what this man said I gathered it was a pretty bad case.

Foley: Well, John told me that the judges know about it and one of the judges told John that he considers this fellow to be the principal offender and if he comes before him he is going to get the longest sentence, so John said under those circumstances he couldn't possibly....

H.M.Jr: Did you see the way I changed that? Was that all right?

Harris: Fine.

Foley: That was a good change.

H.M.Jr: It looked to me as though some diplomat wrote it.

Foley: Not a diplomat, a lawyer.

H.M.Jr: Well, I was just being polite. It was a little bit too diplomatic. After what Harris said about this fellow, I didn't want to be in a position as though I was encouraging anybody to think that I wanted this man to....

Foley:differently than anybody else.

H.M.Jr: That is right. If Phillip wants to go over my head, that is all right.

- 3 -

- Harris: You made some reference yesterday to somebody else being a dressmaker. The facts bring out he was the dressmaker. He did the alterations himself after they got here.
- Foley: John says what they want to do is to bring him over to the World's Fair and set him up in business at the World's Fair. That is Reynaud's interest, according to John Cahill.
- H.M.Jr: I thought the United States Treasury was in some funny different kinds of business, but I guess we have got one now. The other day at the Cabinet the President said, "I want to read a cable," or something, "from Paul Reynaud, who is the French Morgenthau," and I said, "I object, Mr. President."
- Any other gossip?
- Foley: No.
- Baillie: I understand, Mr. Secretary, you wanted us to bring up the cable from Welles.
- H.M.Jr: Yes, just so that everybody....
- Baillie: Mr. Welles....
- H.M.Jr: I am so afraid that I don't tell everybody who should know, so this is the clearing-house.
- Baillie: Mr. Welles is now at Panama. He took down with him some resolutions which had been approved in advance by the Secretary, Mr. Jones, and the State Department, which provided for the formation of a committee of five representatives of the Pan-American Republics who would consider and study the possible financial cooperation between the Republics, which might be advisable because war existed. At that time Mr. Welles suggested rather stronger resolutions than the group agreed to, and the strength lay in his suggestions in a promise of putting up money in connection with this cooperation, that we would promise to put up money, \$200,000,000.
- The understanding when Mr. Welles left was that what we would do instead would be to offer them

- 4 -

the facilities of our private banking system and also the help of government agencies if they happened to have any money. The government agencies have been canvassed and they were singularly low on money really available.

Now this telegram, Mr. Welles having come to Panama, comes up and he says that the Mexicans are making a suggested change in our resolutions. Our resolutions had provided that the committee of five be elected by all the members of the Panama conference. The Mexicans suggest that the five members be elected, two by the Republics of South America, one by the Republics of Central America, and two by the Republics of North America. Now, if you are the masters of your geography that I am sure you are, that puts it so the Mexican representative is pretty sure to be a permanent member of the committee. We have no fear but what an American member would always be on the committee because the fellow they wanted to ask for money would surely be there, so we didn't feel it was necessary to make any suggestions as to our being a member.

This Mexican suggestion means that the United States, Cuba and Mexico - I think that is right, those are the three North American Republics who are members - would collect two members. Now, Mr. Welles says - that is the first suggestion. Mr. Welles says he thinks that is all right.

There are another group of us who talked before this meeting and we couldn't decide whether Mr. Welles assumed that we would see that that was the suggestion and would so turn it down or whether he possibly didn't see the implications or whether he welcomed Mexico as a permanent member of the committee.

From our point of view, we think we should at least mention that possibility to the State Department and say that we are somewhat surprised, that it is a State Department matter, but we are somewhat surprised at such a line-up and it would seem to us more sensible to have all the Republics vote as a group.

H.M.Jr: Who works with the State Department?

- 5 -

- Cochran: Livesey telephoned that over and he and Collado want to come over.
- Baillie: Collado was in on the first conversations when Burgess and I went to see Welles. Feis was in it. Of course Feis and Welles are down there. I suppose Mr. Livesey is really in the position....
- Viner: Duggan would probably be working on this too.
- Baillie: Probably. Livesey is the one who says he wants to come and talk and Collado was the fellow who had the facts in mind.
- White: Livesey is next in charge to Feis. Collado specializes in Latin America.
- Baillie: The second point was that we were very anxious to make the first two months of the life of this committee a study and not an action committee. We wanted to find out what the possibilities were before we definitely committed ourselves.
- H.M.Jr: I understand that the only point is, is Mr. Welles cognizant of the fact as this is set up Mexico would be one of the five.
- Baillie: And also one of the five forever unless Cuba should come in.
- H.M.Jr: And you are bringing this to his attention through the State Department?
- Baillie: And from our point of view it is a State Department matter. They are making up - they know what is high policy. We just are surprised and so we want them to notice it.
- H.M.Jr: I don't know as it is necessary to point out that sometime in November Mr. Hanes will be going to Guatemala. I take it that between the time that this thing expires and the Guatemala - he will want to meet with this five.
- Viner: This is something bearing on the condition.

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Baillie: Then we come to the second point, which is the thing that - we only had five minutes on this so that our remarks are somewhat half-baked and they aren't ready even for final discussion.

The second point is that they wanted to change our study resolution into one which instructed the advisory committee to submit to Guatemala the basis for the creation of an international financial institution of a permanent character. Now, as Wynne says, that really is sort of a - committing us to the creation of a bank of international settlements for North and South America. That is quite a mouthful. There, I think, the Treasury owes it to Mr. Jones, since he was in with us on this discussion, to be sure that he has gone into this thing and see whether he agrees and whether you agree, and you, John, agree with our feeling that we, the Treasury, would not like to see any such semi-commitment made now before a discussion has gone on as to what type of institution this is.

I will just give you one example: To facilitate the settlement of payment between the American Republics. At the present moment, Mr. Cochran with this stabilization fund is finding no difficulty in dealing in gold with anybody that has any gold to deal with at a dollar exchange. By our study of the exchange situation we know that no panic exists in the exchange.

H.M.Jr: How quick do they want an answer?

Baillie: They were very anxious....

Cochran: They wanted it last night.

Baillie: I said I would not consult you last night.

H.M.Jr: I think this is important enough that you fellows ought to get together and ask Jones when he can come over here.

Baillie: We feel so.

H.M.Jr: I think if Hanes would get hold of Jones and bring him in, because - may I point out that before they

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left they talked to Jones about letting us know.

Baillie: We can put off the State Department people, you mean, for a little while until we get another chance to talk to Jones?

H.M.Jr: Tell them that we will have an answer for them by tonight but I think it is important enough that you bring Jones into the picture.

Baillie: May I ask you, Mr. Secretary, whether you feel with us that the position that you and Mr. Jones took with Mr. Welles was a pretty sensible position?

H.M.Jr: May I say, as far as I am concerned, it is of no interest to me whether Mexico is or is not in it. I don't know the picture.

Baillie: We just want to call their attention to that.

White: Do you think that is necessary? They know North America. It is a little bit presumptuous, it seems to me, to remind them that North America consists of Mexico and Cuba.

Viner: They are sending us a letter containing the information. It is the second thing they want to know about.

Riefler: They have to send it to us.

H.M.Jr: I think you could ask - who do they have in Latin America?

White: Duggan.

H.M.Jr: If he came over here and had a meeting, you could ask him just sort of offhand, if the State Department wants Mexico as one of the five.

Baillie: Confirm it. I think we could. I think the question would do no harm.

H.M.Jr: The other thing, I had a perfectly good understanding with Mr. Welles which we arrived at with the help of Mr. Jones, and that is that - I couldn't get the exact wording and I wouldn't try to paraphrase it. I don't want to go any further than that.

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- Baillie: That is the view of those of us who had a chance to discuss this thing before the meeting.
- H.M.Jr: And Welles was satisfied with that. I understood that this committee of five would sit here and then we would have a chance to sit down and talk with them and work out some kind of a program for the Treasury so that before Hanes went down there he would know where he was at.
- Baillie: This will certainly be a hot poker now. If you were committed to ABIS on this thing - we understand what you wanted us to do and we will get after it right after this meeting.
- Hanes: You can't do it right after this meeting. If you will wait until we get through with this railroad matter, and then....
- Baillie: You make the date with Jones and then we will get our group together.
- Riefler: Shouldn't we have the State Department at the same time?
- Baillie: I think not.
- Riefler: So we can find out what they have in their mind?
- Viner: The last time we worked a whole week at cross purposes. We have to work faster than that now.
- Baillie: We must also be sure, it seems, that our ally, Mr. Jones, understands us and we understand him, because the last time....
- White: Who is the enemy, Earle?
- Baillie: Anybody who tries to take money away from us against our will.
- White: I just wanted to understand it.
- H.M.Jr: May I say I would get Jones over here and talk to him first to see whether he knows what is going on. I will bet anybody 5 to 1 he doesn't.

- 9 -

Baillie: That is my own impression.

H.M.Jr: Then after you find that Jones is thinking along the same lines, namely, to stand pat, then you can invite somebody to come over from the State Department. Is that all right?

Baillie: Yes.

H.M.Jr: John?

Hanes: Yes.

H.M.Jr: Let's leave it this way. The only reason I care to be free is if somebody wants to change it from the way it was left when Welles left.

Baillie: To come back.

H.M.Jr: Otherwise, I don't want to hear it, but I would like it cleaned up by 5:00 o'clock. O. K.?

Hanes: Yes.

H.M.Jr: I mean that is the importance of having the meeting and I take it that both Harry and Cotton were in on this thing.

Baillie: Cotton is in on it and Harry was working with you so he couldn't come to the meeting, but we are going to get with him right after the meeting.

H.M.Jr: If I don't hear again, I will take it - I am not interested in who are members, I mean. It is perfectly all right to informally raise the point with the State Department, but I worked very hard and under great pressure before Mr. Welles left. I don't want anything changed as to our understanding with him. If there is something in the air, I would like to be told of it, but if there isn't - I think a 10 or 15 minute discussion is helpful to everybody in the room.

All right, everybody happy?

Hanes: Yes.

Baillie: You will let me know, John?

- 10 -

Hanes: Just as soon as I get Jesse.

H.M.Jr: Anything else?

Baillie: No.

H.M.Jr: Just a few minutes is very helpful to me.

Baillie: I think we will work this morning if we can have just a little meeting beforehand and then come in here.

H.M.Jr: All right.

Cochran: There is one matter - In a letter dated September 26, 1938, we authorized the Federal Reserve Bank of New York to send to the Netherlands Bank at Amsterdam a cable referring to a telephone conversation and we said, "Against the next 25 million dollars which you may have to sell in support of your currency, it will be in order for you to earmark gold in Amsterdam under the arrangements set forth in our 62."

Our 62 was the cablegram sent on November 24, 1936, just after the Netherlands and Belgium and Switzerland had entered the Tripartite. Now we check up and find that in this one year there had only been used under that authorization an amount of 690 thousand dollars, thus leaving - and that was on September 28, just two days after the authorization was given. So this leaves outstanding under this order a balance of \$24,310,000. The question is whether we ought to have any outstanding authorizations of any sort by which we might possibly get caught with gold on the other side. We have drawn up two suggestions, one which Mr. Baillie thinks is right. It is that the Federal Reserve Bank remind the Netherlands Bank that this outstanding authorization had not been utilized for one year. In view of this fact and considering the present world situation, would they object to our recalling this order with the definite understanding that if the Netherlands Bank needed dollars they should communicate promptly with the Federal Reserve Bank of New York and prior to taking any action.

Now, the idea would be for them to phone that across and then follow it up with a letter of confirmation.

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Baillie: Do you remember, Mr. Secretary, that once they presented us with 23 million of gold at the end of the day, much to our surprise. It was previous to the war crisis.

Cochran: It was then that we fixed the 25 million dollar order after that.

H.M.Jr: Have the three "E's" seen this?

Cochran: No sir, they haven't.

H.M.Jr: I would like them to take a look at it. Has White seen it?

Cochran: No, no one but Mr. Baillie. What we are trying to do is find out whether we had any engagement to take gold abroad. This is the only one that is outstanding. That is what we were trying....

H.M.Jr: It ought to be wiped off the books, but just let the three "E's" take a look at it and let White take a look at it. I am satisfied now that nobody should be able to put anything at us. If they want to - Baillie brought up this point and it is very good - we will cancel out all our "puts."

Baillie: We don't want to be seeming to destroy our Tripartite. That is why this weasel-worded business - you won't mind if we take it back, and so forth.

H.M.Jr: Again, just let the three "E'S" take a look at it, and White, will you? Does that clear you up?

Cochran: Yes, sir.

H.M.Jr: Stewart?

Stewart: Nothing.

H.M.Jr: Viner?

Burgess?

Burgess: Both the market and the Federal Reserve behaved extremely well yesterday. The situation looks much better. We have our fingers crossed still.

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Viner: Was it a natural merger?

Burgess: Yes. There were no bids in the market, although the Federal indicated to the dealers that they were not unreceptive if anything happened. They changed their path, I think, very wisely after Bell had a talk with them on Monday.

H.M.Jr: I haven't got my row of medicines here this morning but....

Baillie: You can get at them if you need them, can't you?

H.M.Jr: I can recommend one or two to the Federal Reserve if they start monkeying with our market again. These medicines have various uses.

Hanes: You ought to have a quart of arsenic.

H.M.Jr: All right.

Burgess?

Burgess: That is all.

H.M.Jr: George?

Haas: I have nothing.

Harris: You spoke yesterday about Bocagrande.

H.M.Jr: Yes.

Harris: I don't know when you were last there, but....

H.M.Jr: January.

Harris: Well, since that time there are now two guards that go over and meet every ship that comes in there and stay there the duration of her unloading or, principally, loading. They come over by car from Tampa. The steamship company advises them about a week before the arrival of the ship. They drive over and stay until the ship is cleared and out. All you say about the young lady is apparently correct and the father does run a ferry boat, but while he is on the Government payroll, he only gets about \$500.00 a year and it is kind of a part-time

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job. Your criticism, I think, has been corrected meanwhile.

- H.M.Jr: While we are on Tampa, last night I called up Herbert Gaston about five minutes to 7:00 and I heard that you had a very efficient fellow down there at Tampa who reported that two suspicious oil tankers were for Tampa, and I asked Herbert to get busy on the information and to have a report not later than noon today.
- Gaston: I have a preliminary report I got last night. There may be something else on my desk now. I haven't been in yet this morning. The preliminary report was that the Pandora went from Key West with the Deputy Collector of Customs yesterday and they would get some details about what they found out later and they would have it to me this morning.
- H.M.Jr: I think the proper time that this Deputy Collector should receive a complimentary letter is now.
- You don't know yet?
- Gaston: No, I don't know yet.
- Harris: We are getting those reports, Mr. Secretary, from practically every port in the United States. Every suspicious movement of any ship whatsoever.
- H.M.Jr: I wish you and Gaston would get together and until further notice I would like to receive those the second they break, and you and Gaston work out some way that they get in to me instantaneously. I don't know yet how the President receives them. I would like to find out. But I don't get them. I hear it through another party in the Treasury. I heard there about these three oil tankers. I don't know just how it is divided between Coast Guard and Customs. You two fellows have a little talk and between you see that when anything like that comes up which looks out of the ordinary, that I get it instantaneously.
- Anything else, Harris?
- Harris: You handed me a letter a week or so ago from the Director of Procurement. It was about the

quantity of manganese ore in this country. I find there is about 472,000 tons. The question is, what do you want to do about it? ✓

H.M.Jr: You know the President sounded off yesterday on that. I don't know where he got his information. Could you give me a memorandum on that?

Harris: Yes, sir.

H.M.Jr: Will you?

Harris: Yes.

H.M.Jr: I would like it boiled down, and also on other strategic materials. I don't know where the President got his information.

Duffield: He said from the Secretarys of War and Navy. Woodring went out just as I went in.

H.M.Jr: Who was at the President's press conference? He must have been in a bad humor yesterday.

Duffield: Oh no, he was in perfectly good humor on that.

H.M.Jr: And also 80 percent of the people who wrote books on this stuff didn't know what they were talking about.

Duffield: He was a little sharp about that.

Hanes: He spoke about Louis Johnson and a certain book. I don't know whether he was talking about Louie or the fellow who wrote the book.

Gaston: I have that book. I got it from Johnson's office.'

H.M.Jr: I would hate to have the Treasury talked about or have the President talk about me or anything the Treasury has to do with the way he did yesterday. He certainly wiped up Louis Johnson.

Duffield: He did it all in very good humor, Mr. Secretary. He wasn't sharp a bit. He enjoyed himself.

Foley: He had lunch with Ickes.

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H.M.Jr: I still say I hope he doesn't ever talk that way about any of our fellows.

Get me the manganese stuff, will you?

Harris: Just as a matter of interest, practically all of the manganese in this country lies in Baltimore.

H.M.Jr: Could you get it to me today?

Harris: Yes.

H.M.Jr: Harry?

White: There was a meeting of the Executive Committee on Commercial Policy in which the two questions of rubber and manganese were brought up. Apparently the War Department is much concerned about the acquisition of most of the surplus stocks of rubber by Russia that have come into the market and bid up - bought most of the surplus and has driven up the price. One part of the War Department says it is very serious and something has got to be done right away and the other part says it isn't serious and nothing has got to be done. The Committee decided that in so far as there was a question of defense, it would have to be a matter which the War Department would agree on among themselves, but that it had very definite important commercial aspects. The whole question of the possible restriction of exports that would....

H.M.Jr: If you people don't mind, I don't feel well. I am just going to stop you now. I am sorry.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 27, 1939.

Dear Henry:

While I suppose it is futile to hope that either of us will be fairly represented in the Washington gossip columns, I cannot let yesterday's sample in the Kintner-Alsoop column go by without letting you know that it was particularly painful to me, as it must be to you.

This is all the more true at a time like the present when we are all pulling together to the best of our ability. As you know and as I have long since emphasized, I want to cooperate always with you as long as I am here. That does not mean that we are always going to see eye to eye and I have never imagined for a moment that you wanted anything other than my honest opinion from time to time, whether it happened to be the same as your own or not.

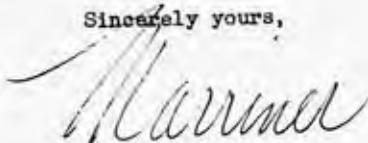
Certainly this cannot be fairly represented as meaning there is a clash between us, as this most unfortunate column

- 2 -

tries to make it appear. I am additionally upset by it because it attempts to represent me as favoring open-market operations in the interests of easy money which, as you know, is perfectly ridiculous.

Had you been at the office, I would have called you, but I am taking this occasion also to let you know that I am sorry you have been indisposed and hope that you will be back on deck at the earliest possible moment consistent with your own good health.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "M. Harriman".

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 27, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was more active today. Sterling ranged from 4.00-1/8 and closed at the high of 4.02-1/4. The better rate for sterling was probably due to (1) a demand for sterling for delivery towards the end of the month, (2) the fact that as more sterling is offered to the British Control the floating supply of sterling in the open market is reduced and (3) the market being rather thin on the upside for the last few days.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £661,000 from the following sources:

Commercial concerns	£ 106,000
Foreign banks (Europe, South America & South Africa)	£ 330,000
Fed. Res. Bk. (£50,000 for Norway, £125,000 for Denmark, £50,000 Sweden)	£ 225,000
Total	£ 661,000

Purchases of sterling amounted to £374,000 as indicated below:

By commercial concerns	£ 223,000
By foreign banks (Europe & Far East)	£ 151,000
Total	£ 374,000

The banks also reported that the British Control purchased sterling amounting to £45,000 at the official rate.

In connection with bills offered to the British Control at the fixed rate of 4.02, the Federal Reserve Bank advised us that the banks have started the practice of advancing dollars to the sellers of these bills, pending word from the Control of the acceptance of the sterling.

The Director of Exchange in Brazil cabled to the Federal Reserve Bank of New York stating, in acknowledgment of our cablegram of September 21, that the Bank of Brazil accepts the terms in the letter of July 15, 1937, from the Secretary of the Treasury to the Minister of Finance of Brazil, which letter refers to the purchase of gold by Brazil and the arrangement for the purchase of milreis by the Fund. The Director informed the Federal Reserve Bank of New York that the Government of Brazil is sending through the American Embassy in Rio de Janeiro a letter confirming the designation of the Bank of Brazil as its fiscal agent. The Director also advised that within a few days the Bankers Trust Company will turn over to the Federal Reserve Bank of New York, in the name of the Bank of Brazil, gold which Brazil is transferring from London to New York.

-2-

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

The State Bank of Russia today sold to us \$2,250,000 gold, representing all the gold held for their earmarked account at the Federal Reserve Bank of New York. This amount had been purchased from us only on September 8.

The Federal Reserve Bank of New York received a cable from the Central Bank of Norway stating that it contemplated shipping \$3,000,000 gold to the Federal. The Bank of Norway inquired if the Federal could arrange for marine and war risk insurance and requested to be advised by cable of all charges in connection with the shipment mentioned.

H. M. S.

CONFIDENTIAL

September 27, 1939

My dear Capt. Collins:

The Secretary has asked me to send you the inclosed copy of cable from London, #1741, for your information.

Sincerely yours,

*dated 9-20-39 +
filed that date*

H. S. Klets
Private Secretary

Capt. H. E. Collins,
Director of Procurement,
Treasury Department.

September 27, 1939

My dear Capt. Collins:

The Secretary has asked me to send you the inclosed copy of cable from London, #1741, for your information.

Sincerely yours,

H. S. Klets
Private Secretary

Capt. H. E. Collins,
Director of Procurement,
Treasury Department.

September 27, 1939

My dear Capt. Collins:

The Secretary has asked me to send you the inclosed copy of cable from London, #1741, for your information.

Sincerely yours,

H. S. Klets
Private Secretary

Capt. H. E. Collins,
Director of Procurement,
Treasury Department.

Prepared by Sidney G. Tickton

45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 27, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Effect of declines in the market value of Government securities upon life insurance companies

The market value of the aggregate holdings of United States securities of thirty-seven large life insurance companies* has declined by about \$130 millions, on net balance, since December 31, the most recent date for which detailed data on Government security holdings of these companies are available. This loss -- equivalent to about 3.1 percent of the book value of the securities held (\$4,195 millions) -- will be reflected in the reported accounts of these companies only to the extent that it is realized by actual sales, and is not offset by previously unrealized appreciation in the particular securities sold.** This decline is equal to approximately 8 percent of the aggregate reported surplus to policyholders of the insurance companies (\$1,620 millions) as of December 31, 1938.

Losses have been suffered in all classes of Government securities held, except Treasury bills. The greatest losses, both in terms of percentage declines in value of the portfolio and in the dollar amount involved, have been suffered, however, in medium-term and long-term obligations, as shown in the accompanying table.

The figures in the table are based upon the assumptions that (1) the portfolios held on December 31 have remained unchanged since that date, except for issues which matured or

-
- * A list of these companies appears in the appendix.
 - **Insurance companies carry their Government securities (as well as other bonds "amply secured" and not in default) at book values, which do not vary with fluctuations in market prices. "Paper losses" would become "real losses", however, if insurance companies found it necessary or desirable to dispose of, replace or exchange the particular securities in which "paper losses" had been accumulated.

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were called; and (2) no additional loss was suffered on subsequent additions to the Government portfolio. (These additions amounted to \$165 millions between December 31 and June 30, the last date for which monthly totals are available.) Neither of these assumptions is strictly true, but it is improbable that they have resulted in a substantial error in the final results. A small portion of the declines shown in the table may be offset by amortization of premiums. This would be important over a period of years, but is of limited significance over a short period.

The foregoing figures for insurance companies correspond to those presented for all insured commercial banks in our memorandum of September 15, 1939*, except that the bank data there presented concern declines in the value of portfolios from June 30, 1939 instead of from December 31, 1938. Figures so calculated eliminate, of course, the offsetting profits -- paper or real -- that may have been accumulated in the Government security portfolio during the spring rise in the market. We have made rough estimates of the decline in the value of insurance company Government security portfolios from June 30, therefore, for purposes of comparison with the bank figures previously submitted. These estimates place the decline in value of these portfolios from June 30 to September 26, 1939 at about \$212 millions.

It would be useful to have a rough measure of the probable effect of any future changes in the price of United States securities upon the aggregate market value of the holdings of insurance companies. It is difficult to state such a measure in a single figure, however, because price changes in the different maturity classes do not always follow the same pattern. Sometimes the shorts are strong relative to the longs, and sometimes vice versa. It is interesting to note, however, that a change of one point in the price of the longest-term Treasury bond, if accompanied by the same relative changes in the prices of securities of other maturities, as was the case during the period from June 30 to September 26, 1939, would mean a gain or loss of about \$29 millions in the market value of the United States securities portfolio of the thirty-seven companies. This is equivalent to about 1.8 percent of the aggregate surplus to policyholders of the companies.

*"Effect of Declines in the Market Value of Government Securities Upon Bank Capital."

**Estimated Decline in Value of Government Security Portfolios
of Thirty-Seven Large Life Insurance Companies***

(Dollar figures in millions)

	: Government : securities : held, : Dec. 31, 1938	: Estimated : decline in : value of : portfolio, : Dec. 31, 1938- : Sept. 26, 1939	: Percent : decline
Treasury bills	\$ 69.5	\$ 0.0	0.0
Treasury notes	388.8	5.9	1.5
Treasury bonds:			
Callable within 5 years	303.3	7.4	2.4
Callable in 5 to 10 years	1,377.9	47.6	3.5
Callable in 10 to 15 years	695.5	24.8	3.6
Callable after 15 years	795.8	27.9	3.5
Total bonds	\$3,176.5	\$107.7	3.4
Guaranteed obligations:			
Callable within 5 years	249.7	8.1	3.2
Callable in 5 to 10 years	233.6	8.1	3.5
Total guaranteed obligations	\$ 483.3	\$ 16.2	3.4
 Total U. S. obligations (par value)	 \$4,118.9	 \$129.8	 3.2
 Total U. S. obligations (book value) ...	 \$4,195.0		

*These companies hold approximately 82 percent of the admitted assets of all United States legal reserve life insurance companies.

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Appendix

Thirty-Seven Legal Reserve Life Insurance Companies
Reporting Monthly to the Association
of Life Insurance Presidents

American United Life Insurance Company	Indianapolis, Ind.
Bankers Life Company	Des Moines, Iowa
Bankers Life Insurance Company of Nebraska	Lincoln, Nebraska
Berkshire Life Insurance Company	Pittsfield, Mass.
The Colonial Life Insurance Company of America	Jersey City, N. J.
Connecticut General Life Insurance Company	Hartford, Conn.
The Connecticut Mutual Life Insurance Company	Hartford, Conn.
The Equitable Life Assurance Society of the U. S.	New York, N. Y.
Equitable Life Insurance Company of Iowa	Des Moines, Iowa
The Franklin Life Insurance Company	Springfield, Ill.
The Guardian Life Insurance Company of America	New York, N. Y.
Home Life Insurance Company	New York, N. Y.
Jefferson Standard Life Insurance Company	Greensboro, N. C.
John Hancock Mutual Life Insurance Company	Boston, Mass.
The Life Insurance Company of Virginia	Richmond, Va.
The Lincoln National Life Insurance Company	Fort Wayne, Ind.
The Manhattan Life Insurance Company	New York, N. Y.
Massachusetts Mutual Life Insurance Company	Springfield, Mass.
Metropolitan Life Insurance Company	New York, N. Y.
The Mutual Benefit Life Insurance Company	Newark, N. J.
The Mutual Life Insurance Company of N. Y.	New York, N. Y.
National Life Insurance Company	Montpelier, Vt.
New England Mutual Life Insurance Company	Boston, Mass.
New York Life Insurance Company	New York, N. Y.
Northwestern National Life Insurance Company	Minneapolis, Minn.
The Penn Mutual Life Insurance Company	Philadelphia, Pa.
Phoenix Mutual Life Insurance Company	Hartford, Conn.
Provident Mutual Life Insurance Company	Philadelphia, Pa.
The Prudential Insurance Company of America	Newark, N. J.
Reserve Loan Life Insurance Company	Indianapolis, Ind.
Security Mutual Life Insurance Company	Binghamton, N. Y.
State Mutual Life Assurance Company	Worcester, Mass.
Travelers Insurance Company	Hartford, Conn.
Union Central Life Insurance Company	Cincinnati, Ohio
United States Life Insurance Company	New York, N. Y.
The Volunteer State Life Insurance Company	Chattanooga, Tenn.
The Western and Southern Life Insurance Company	Cincinnati, Ohio

Note: These companies hold approximately 82 percent of the admitted assets of all United States legal reserve life insurance companies.

September 27, 1939

To: The Secretary

From: Mr. Hanes

Proclamation of state of war between foreign states, otherwise known as the Neutrality Act, which has just been submitted to committee and is now in committee print form

Section 1

- (a) Directs President to issue proclamation naming states involved in war.

Section 2

- (a) When the President shall have issued such proclamation it shall thereafter be unlawful for any American vessel to carry any passengers or any articles or materials to any state named in such proclamation.
- (c) It shall also be unlawful to export any articles or materials until all right, title, and interest therein shall have been transferred to some foreign national.
- (d) Insurance written on vessels carrying such shipments shall not be deemed an American interest therein.

Section 3

- (a) The President shall by proclamation declare combat areas and thereafter it shall be unlawful for any citizen of the United States or any American vessel to proceed into such combat area.

Section 4

Exempts the American Red Cross from provisions of Section 2 (a).

Section 5

- (a) After proclamation by the President it shall be unlawful for any citizen of the United States to travel on any vessel of any state named in such proclamation, except in accordance with such regulations as may be prescribed.

Section 6

After proclamation it shall be unlawful for any American vessel to be armed.

Section 7

- (a) After proclamation it shall be unlawful for any person within the United States to purchase, sell, or exchange bonds or securities or other obligations of the government of any state named in such proclamation. Under Section 7 there is practically the same provision as there was in the former Act, namely, giving the President the right in his discretion and under such rules and regulations as he may prescribe to exempt from the operation of this section for a period of not more than 90 days without renewals, ordinary commercial credits, and short-time obligations, etc. There is an added provision that the President shall report to Congress every six months any and all exceptions granted under this subsection.

Section 8

- (a) After the proclamation by the President it shall be unlawful for any person within the United States to solicit or receive any contribution on behalf of any government named in such proclamation.
- (b) Exempts the American Red Cross.

Section 9

The joint resolution shall not apply to any American republic engaged in war against a non-American state or states, provided the American republic is not cooperating with a non-American state or states in such war.

Section 10

- (a) Provides that in case any person shall have cause to believe that any vessel is about to carry out of a port of the United States, fuel, men, arms, ammunition, or implements of war to supply to a tender or supply to a ship of a belligerent state, the President shall have the power to require the owner to give bond to the United States with sufficient sureties conditioned that the vessel will not deliver the contraband to any such tender or supply ship of a belligerent state.

Section 10 - continued

- (b) The President has the right to intern a ship that has delivered cargo to a tender or supply ship of a belligerent state.

Section 11

Declares unlawful for any submarine or armed merchant vessel of a foreign state to enter a port of the United States except under such conditions as the President may prescribe.

Section 12

- (a) Sets up a national munitions control board consisting of the Secretaries of State, Treasury, War, Navy, and Commerce, and places the administration of this joint resolution in the Department of State.
- (b) Declares it necessary for every person engaged in the exporting of arms to register with the Secretary of State.
- (c) Every person so registering shall pay a registration fee of \$100.
- (d) Makes it necessary to obtain a license for the export of arms.
- (e) Upon recommendation of the munitions control board, a list of articles which shall be considered arms, ammunition, and implements of war shall be proclaimed by the President for the purposes of this section.

Section 13

Gives the power to the President to prescribe from time to time such rules and regulations as may be proper for the carrying out of the provisions of this joint resolution.

Section 14

General penalty provisions.

Section 15

Definitions.

Section 17

Authorisation for the appropriations for carrying out the provisions of the Act.

Section 18

Repeals the joint resolution of August 31, 1935, and also the joint resolution of January 8, 1937.

J. W. H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Read
12:22
on memo

DATE September 27, 1939

TO Secretary Morgenthau

FROM Mr. Burgess

I have talked at length with Mr. Eccles this morning. With the Government market strong, the Federal Reserve is out of the market altogether. The arrangement is that if the longest bond goes down to 99.20, the New York Bank will notify Mr. Eccles. They are prepared to buy at prices from 99½ down to 99 10/32nds, if necessary. They would try to concentrate their buying in the few longest issues. They, of course, hope that nothing will be necessary. It is arranged that we would check again this afternoon and possibly get together.

Mr. Eccles was disturbed and regretful about the article by Alsop and Kentner.

wrb

File

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 27, 1939

TO Secretary Morgenthau
FROM Mr. Burgess

MEMORANDUM

Mr. Eccles called me up at four o'clock this afternoon to discuss the day's operations and the program for tomorrow. The suggestion for tomorrow is that the Federal Reserve keep out of the market unless there is a drop of 8 or 10/32nds in prices, in which case there would be a discussion to see what, if any, action should be taken in view of the then existing circumstances. Mr. Harrison, he says, has agreed to this program, and I told him it sounded all right to me, with the understanding that of course the objective would be to keep out of the market just as long as possible.

wldy

September 27, 1939.

The following message was phoned by Coast Guard Communications at 10:00 A.M., received by them from Jacksonville, District, C.G.

Key West Customs officers boarded with Masters' consent BRARENA and H. G. WAGON at 11:30 from PANDORA with following results: Norwegian tanker BRARENA has been anchored in latitude 24 - 27 - 30 north, longitude 82 - 33 west, since 4 September STOP In waiting orders from agent, Davis & Company, Inc., of New York; is under charter of Oil Products Trust of S.A. of Luxemburg STOP Last port cleared Hamburg, Germany, 15 August STOP Is in ballast and has two clearances, one for Gulf Ports via Key West, waiting orders, other for Tampico, Mexico STOP BRARENA is under provisional certificate of nationality issued by Norwegian Consul, Halifax on 30 March, 1938, good for two years STOP Panamanian tanker H. G. WAGON has been anchored in latitude 24 - 28 north, longitude 82 - 35 west, since 13 September STOP Is awaiting orders from agents, Magnuss Konow & Company of Oslo STOP U. S. Agent probably Davis & Company of New York STOP H. G. WAGON was sold to Transocean Shipping & Chartering Company, Ltd., of Panama City, Panama, in July, 1939 STOP Former name was SIR OSBORN HOLMDEN; was owned by A. F. Klasesness & Company, Oslo, Norway STOP Present charter was cancelled 25 August by Norwegian agent STOP Last port cleared Hamburg, Germany, 24 August in ballast STOP Has two clearances, one for Gulf Ports via Key West, awaiting orders, other for Tampico STOP WAGON is under provisional registry issued at Panama City 17 August, 1939; good until February, 1940 STOP Customs officers searched both vessels and found no violations nor excessive sea stores, no arms and ammunition.

Handwritten initials

September 27, 1939

My dear Cordell:

I am inclosing herewith a very interesting memorandum from Commissioner Harris.

It seems to me that this is a weak link in a chain of neutrality which you are trying to forge. I am sending you this for whatever use you may wish to make of it.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Cordell Hull,
Secretary of State.

September 27, 1939

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Cordell Hall,
Secretary of State.

Waterman Charters to Anchor Line in Force

The Maritime Commission's revocation of General Order No. 1, as amended, is NOT to be made retroactive and the net form charters for three American ships—Wacosta, Jean La Fitte and Anchor Line, to the British service, whose vessels have been requisitioned by Britain's Admiralty, remain active. Details of that situation have been discussed in this column previously, and to bring them up to date it is recalled that the Wacosta recently survived a perilous crossing, punctuated by an attack from a German submarine across her bow. As a result of the commission's cancellation of its amended order authorizing the charter of American tonnage, in which the Government has no financial interest, to foreign interests for a period not exceeding six months, the Wacosta cannot leave these shores again for account of the British service without specific Government approval. However, the charters covering the Jean La Fitte and Anchor Line are still in force.

September 26, 1939.

MEMORANDUM FOR THE SECRETARY:

The Maritime Commission has given approval to the Waterman Steamship Company (an American company) to charter their American flag steamers S/S JEAN LA FITTE and the S/S ANTIPOUS to the Anchor Line of Glasgow (a British company) for a voyage between Glasgow and New York, replacing two British ships that were withdrawn for troop carriers.

This is a similar situation to the S/S MACOSTA, which is owned by the same company and likewise was chartered to the Anchor Line and which was the first American flag ship stopped by a German submarine. The ship's manifest was examined closely by the submarine Commander and the vessel was allowed to proceed, after three hours delay, with a severe warning. All three vessels were chartered to British owners before the President's Neutrality Proclamation, and lead from Glasgow to New York.

Inasmuch as the loading is done by British owners, and these American ships replace British ships withdrawn for war service, I consider charters of this nature extremely dangerous, and it is my firm opinion that both of these charters should be cancelled, regardless of when the charter was entered into, or regardless of any expenses incurred.

(Signed) Basil Harris

BH/hkb

September 27, 1939

My dear Mr. Sloan:

I would appreciate it very much if you would give Captain W. D. Paleston the information he requested orally this afternoon from Mr. William F. Anderson.

Yours sincerely,

Mr. Alfred P. Sloan, Jr.,
General Motors Corporation,
Broadway at 57th Street,
New York, N. Y.

September 27, 1939

My dear Mr. Sloan:

I would appreciate it very much if you would give Captain W. D. Fuleston the information he requested orally this afternoon from Mr. William F. Andersen.

Yours sincerely,

Mr. Alfred P. Sloan, Jr.,
General Motors Corporation,
Broadway at 57th Street,
New York, N. Y.

September 27, 1939

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Yours sincerely,

Mr. Alfred P. Sloan, Jr.,
General Motors Corporation,
Broadway at 57th Street,
New York, N. Y.

MJD

PLAIN

LONDON

Dated September 27, 1939.

Rec'd. 2:55 p. m.

Secretary of State,
Washington.

1845, September 27.

FOR TREASURY FROM BUTTERWORTH.

In reply to a question in the House of Commons yesterday as to whether there is a time limit permitted for the surrendering of foreign currency to the Treasury under the defence (finance) regulations, Sir John Simon made the following statement:

"No, sir, no delay is permitted. I must emphasise the importance of prompt compliance with the regulations under which every person resident in the United Kingdom is under immediate obligation to offer forthwith for sale to the Bank of England for the Treasury any of the following currencies which he may possess: American or Canadian dollars, French francs, Swiss francs, Belgium francs, Dutch guilders, Swedish or Norwegian crowns, Argentine pesos. Every person who has not already done so should immediately give his bankers the necessary instructions. If any person has no bank and is uncertain exactly what to do any

bank

MJD -2- No. 1845, September 27, from LONDON

bank is in a position to advise him. The above applies both to amounts held on 2nd September and to any amount since received or which may be received in future by way of payment for exports or otherwise. Cash payment will be made in sterling for all foreign currencies sold to the Bank of England on the basis of the official rates published daily in the press. I must make clear that the obligation applies to private individuals as well as to firms and companies: they are not entitled to retain holdings in the currencies named whether for the purpose of carrying on their business or otherwise without special permission. Failure to comply with this obligation may entail heavy penalties. I need not add that it is most desirable in the national interest that the Treasury should receive the full amounts available. What I have said of the currencies in question applies equally to gold coin and bullion. Small amounts of token coin (that is coin other than American or Canadian dollars) need not be offered for sale as above."

Asked if this reply refers also to bank deposits held abroad by British citizens Simon said: "Yes. Certainly it applies to any foreign currency which British residents here control. If, for example, a British trading firm has an account in New York in which it is holding dollars those
dollars

MJD -3- No. 1845, September 27, from LONDON

dollars so held in New York are within these regulations and should all be reported."

Colonel Nathan: "Will this apply to persons resident here irrespective of whether they are themselves British or not?"

Sir J. Simon: "I am greatly obliged to the honorable and gallant gentleman. The expression in the answer was 'persons resident in the United Kingdom'. There is no exemption in the regulation for any person who is resident here but who is not British. If they reside here I think everybody will agree that they ought to come within the scope of this regulation."

I gather from the British treasury that Simon had not been properly prepared to answer the final extemporaneous question regarding the surrendering of foreign currency by non-British residents here and that he went too far in his statement in view of the note contained in my No. 1683 of September 16, 2 p. m. The Treasury are now considering the desirability of making public the substance of the note by having a further question asked in Parliament. Sooner or later the concessions made to United States citizens are going to leak out in full. In fact today the NEWS CHRONICLE publishes the following incomplete report in its city column under the heading "American residents' dollars":

dollars": ". . . The foreign exchange regulations have been recently somewhat relaxed. Under the original regulations it was incumbent upon all foreign residents in this country to declare their assets in foreign currencies--whether cash or securities--to the authorities and hand them over in exchange for sterling if called upon to do so. This was a provision which for severity had not been matched by any other country operating a control of exchanges.

"The foreigners most seriously affected were of course Americans and their grievance was apparently taken up very forcibly by the United States Embassy here. The Treasury has as a result decided that Americans who have been resident in this country for less than seven years will not be forced to sell to the British Government the whole of their dollar assets.

"As yet this relaxation has only been made to apply to American residents but it may be assumed that it will be extended to other foreign residents since the amount of foreign exchange that can be extorted from them by this means must be poor compensation for the loss of good will in neutral countries which the enforcement of the original regulations would cause." However I warned them that it was inevitable that this would leak out when they made the concession and that for we have done our bit in preserving a silent front as far as possible.

KENNEDY

OSB

EG

PLAIN

London

Dated September 27, 1939

Rec'd 2:28 p.m.

Secretary of State,
Washington.

RUSH

1844, September 27.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer announced in the House of Commons this afternoon the war budget superceding the previous budget for the fiscal year beginning on April 1, 1939. He estimated that there will be a loss in the yield from existing taxation resulting from war conditions of £52 million from £942 million to £890 million and he imposed increased taxation to yield £107 million additional revenue this year and £226 1/2 million next year. The authorization given on September 1 to increase the borrowing powers from £502 million to £1,002 million he stated would not necessarily be sufficient to cover expenditure to the end of the year. This extraordinary addition to the already very heavy direct and indirect taxes, accompanied by an unlimited borrowing

-2- #1844, September 27 from London

borrowing program for a country with a very large national debt unreduced since the last war, was accepted by the House of Commons in an almost care-free manner and throughout Simon's speech the members acted as if they had in mind the maxim that Waterloo was won on the playing fields of Eton and that like Eton boys they should behave. Only Montagu Norman and Winston Churchill betrayed a sense of the grave implications which these measures will entail in their ultimate consequences. The detailed taxes are as follows:

The standard rate of income tax now 5S.6D. in the pound is raised to 7S. for the current year and 7S.6D for the following year. Exemption allowances and earned income allowances have been reduced, for example, the marriage allowance is reduced from £180 to £170, for a child from £60 to £50 and the earned income allowance from 1/5, maximum £300 to 1/6, maximum £250. Some amelioration in income tax assessment is provided for persons whose income is greatly reduced this year as a direct result of the war. Surtax which ranged from 1S 1.8D on incomes of £2000 to 8S.4.8D. on incomes of £30,000 to £50,000 and 9S. on incomes over
£50,000

-3- #1844, September 27 from London

£50,000 has been increased to 1S.3D. on incomes of £2000 ranging to 9S.6D. on incomes of £30,000 and over. Thus incomes of £30,000 and over will pay a combined income and super tax of 17S. in the pound. The range of estate duties has also been increased so that the highest rate is 80 per cent.

Indirect taxes: Tobacco is increased by 2S. a pound and all tobacco products correspondingly; beer by a 1D. a pint, whiskey by 1S.3D. a bottle (a bottle of Scotch now costs 15S.3D) and other alcoholic drinks and wines correspondingly; the tax on sugar by 1D. a pound, an excess profits tax is to be imposed at the rate of 60 percent of the excess of profits since March 31 of this year over a pre-war standard period. Simon referred to the Prime Minister's statement quoted in my No. 569 of April 27, 6 p.m. and pointed out that whereas it was impossible during a war, particularly in view of the high level of direct taxes, to compute or collect a tax on capital gain for the war period nevertheless this proposition was under active consideration for future use. Simon made an appeal to the public to refrain from unnecessary capital expenditure and to conserve their capital resources to take up war loans which he said would be of various types

designed

-4- #1844, September 27 from London

70

designed to meet the needs of small and big firms and private investors. He added that the time had not yet arrived for the issuance of such loans. Simon made a point of emphasizing the necessity of economy and that steps would be taken to eliminate waste and to cut unessential expenditure wherever possible. In the course of his speech Simon also referred to the importance of avoiding inflation and he cited two undesirable consequences of inflation, namely, rises in the price level and disparities. This over-simplified reference to price rises may prove embarrassing in days to come just as the anti-profitsteering measures are now leading the public to believe that all price rises that are now taking place are ipso facto from profitsteering regardless of whether or not the British Government can control the supply of the articles in question. While admittedly taxation is a fairer method of curtailing consumption generally than an inflationary rise which hits the fixed income group nevertheless it may prove the only possible means of curtailing the consumption of the wage earning class on whom a direct income tax is now politically impossible. In any case if the avowed three years war is actually being prepared for, a measure of inflation cannot be avoided except through universal rationing.

REC'D
SEP 28 1938

SEP 28 1938

KENNEDY

CSE

MJD

GRAY

LONDON

Dated September 27, 1939.

Rec'd. 11:10 a. m.

71

Secretary of State,
Washington.

1835, September 27, 1 p. m.

FOR TREASURY FROM BUTTERWORTH.

A. T. Peterson of the Guaranty Trust has given me the following memorandum regarding standstill developments. He is an American citizen who until the war was the Guaranty Trust's representative in Berlin, and came to this country via Switzerland a few days ago.

"A German delegation consisting of Messrs. Von Wedel and Wolff of the Reichsbank Berlin and Mr. Hermann Abs of the Deutschebank Berlin visited Zurich between the 16th and 19th September, for the purpose of negotiating with the Swiss committee for the 'standstill agreement for German credits' to make a new agreement for the continuance of the outstanding credits which had been included in the old standstill agreement terminated by action of the British and American banks on September third. On September 19 I learned that the Swiss expected to sign an agreement that day which however, would be subject to review and approval by the Swiss Government in view of the fact that

MJD -2- No. 1835, September 27, 1 p. m. from LONDON

that the foreign exchange for the service of the Swiss claims in Germany presumably was to come from Germany's free quota of foreign exchange, arising out of the Swiss German trade clearing arrangements. The service charges are not specifically included in the trade agreement but since negotiations were simultaneously going on in Bern between the German and Swiss Governments on clearing matters the Swiss Government reserved the right to review the standstill agreement. I was informed that the Swiss had not been subjected to any particular pressure by the Germans in connection with either the standstill or the trade negotiations and that negotiations had been conducted amicably. It apparently is the German idea to make an agreement with the Swiss in order to use it as a model for agreement with the Dutch, Belgian and American creditors, delegates for whom they were unable to arrange to have in Switzerland for a general meeting.

I understand that the Swiss are signing an agreement which is practically the same as the old agreement with few minor changes, and no doubt this agreement has since been communicated to the American standstill committee. The Swiss apparently have agreed to continue the lines in full as they existed prior to September third, i. e. including open lines. They have received assurances however that they will not be called upon to finance business differing

MJD -3- No. 1835, September 27, 1 p. m. from LONDON

differing materially from that heretofore financed or which might embarrass them in any way, although the Germans asked for their cooperation in financing such transactions as are possible. The Swiss have heretofore financed importations into Germany of cotton and this, for example no doubt will cease. While Germany may import from Switzerland products which they heretofore have not taken, it is expected that a good portion of clause 39 outstandings will be paid off and that open lines will increase, due to possible difficulties in the way of finding suitable bus iness for financing. The Swiss have likewise agreed to revert interest rates by, I believe, $3/8$ of 1%.

In endeavoring to make an agreement with American banks Germany is actuated by the general desire to demonstrate their willingness and ability to carry on 'normal' international relations. For obvious reasons they wish to have direct accounts with American banks, which can in some way be protected from seizure. They also appear very anxious to preserve to every extent possible credit facilities in America, and naturally hope to find a means of retaining the lines in full (open and used) which existed prior to September 3. Hence they seem willing to pay the price of continuing to meet clause 39 maturities and paying interest, both of which would seem to be entirely to the advantage

MJD -4- No. 1835, September 27, 1 p. m. from LONDON

advantage of the creditors, and they no doubt have the following considerations to some extent in mind: (1) possibility that the war may be a short one, (2) possibility that American banks may be willing to finance shipments for their account between neutral countries, (3) possibility that American banks may be willing to finance shipments from America ostensibly to neutral bloc countries where blockade is ineffective.

The Germans are hoping that either an American delegation will be sent over or American agents appointed on this side to negotiate with them or possibly a German will proceed to New York."

KENNEDY

CSE

RECEIVED

SEP 27 1938

TREASURY DEPARTMENT
Office of the Director
Foreign Branch of the Treasury

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 340

DATE: September 27, 1939, 11 a.m.

Reference is made to your telegram no. 187 of September 20, 7 p.m.

Last night the Bank of Brazil sent a telegram to the Federal Reserve Bank of New York in which it stated that it accepted the terms of the gold plan.

CAFFERY

43012018

SEP 27 1939
EA:EB

RECEIVED
SEP 27 1939
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

TREASURY DEPARTMENT

76

INTER OFFICE COMMUNICATION

DATE Sept. 27, 1939.

TO Mr. Hanes

FROM Mr. Haas

Subject: Meeting on Railway Equipment, held in Mr. Hanes' office, Wednesday, September 27, 1939, at 10:30 A.M.

Present: Mr. Hanes; Mr. John J. Pelley, President, Association of American Railroads; Mr. W. C. Kendall, Chief, Car Service Division, Association of American Railroads; Mr. Haas.

Mr. Hanes opened the discussion, explaining that the occasion for this meeting was the Secretary's continued interest in the railway equipment problem, recalling that last May the Secretary asked Mr. Gray and Mr. Willard to give him a report on the railway equipment needs of the railroads. Mr. Pelley of course recalled the report and said that he had assisted in its preparation, stating that Mr. Gray and Mr. Willard estimated that the cars in good order at that time were sufficient to take care of a 25 percent increase in traffic and that if the cars in bad order were put in good order there would be sufficient cars to take care of a 45 percent increase in traffic. He added that later the Executive Committee of the Association of American Railroads met and raised the 45 percent estimate to 50 percent. Mr. Pelley went on to say that carloadings in May were 593,000 per week and that last week's carloadings amounted to 806,000, which is about a 35 percent increase. This, he said, substantiates the estimate furnished the Secretary by Mr. Gray and Mr. Willard, as the roads are now actually carrying about 35 percent more traffic than in May of this year when their report was submitted.

Mr. Pelley further said that the new car orders placed to date this year amount to 47,000 cars and that 21,000 of these were ordered before Hitler invaded Poland, the remainder having come in since then. Mr. Pelley felt confident that the railroads could meet any situation which the European War or even America entering the war might throw upon them. He stated that all bad order cars are now being repaired so as to put them in good order condition. He pointed out that last week's carloadings were 806,000 cars. This, he indicated, is close to the war level reached in 1918 of 44 million cars for the year. Mr. Hanes asked him if that was the high figure reached, and Mr. Pelley said that in 1929 carloadings amounted to 52 million cars.

Mr. Pelley explained that the railroads now are better organized and are much better prepared to meet an emergency situation than they were in the last war. In the World War, he pointed out, many equipment difficulties were the result of loading more cars than could be unloaded. He said that the Government goods were given right-of-way over all other traffic and in many instances, such as at Camp Knox and Hog Island, hundreds of carloads of material arrived before any unloading facilities were available, which resulted in tying up for extended periods a large number of freight cars. He said he was confident that under the present organization of the railroads and the plans which they have worked out with the War Department that such a situation would not occur again.

Mr. Pelley said he had canvassed almost every conceivable possibility in order to insure adequate railroad facilities in case of an emergency. He said he had consulted the British and the French diplomatic officials here and that he had asked them who would be in charge of their purchasing, stating that he wished to get in touch with the agents to work out any traffic problems that might arise. He was informed, however, that no purchasing agent or agents had been appointed. He said he also endeavored to get from the British and French diplomatic representatives some idea as to the amount of orders which might be expected to come from these two countries and when such orders might come in. He received no definite information and concluded that nobody really knew as so much depends on how the war develops.

Mr. Pelley told Mr. Hanes that the railroads have a very efficient organization in Washington, composed of outstanding railroad men, and that they are always pleased to be of service to the Government on any problem relating to the railroads.

Mr. Pelley pointed out that the meeting of the Shippers' Advisory Board of the Atlantic States Region will be held in Newark, N. J. on October 4 and 5, but that it is merely one of their routine quarterly meetings. He said that when traffic was heavier the Advisory Board met once a month. The purpose of the meetings, he said, was to have the shippers come together and pool their information so as to estimate the probable near-term traffic requirements for the various regions. He said they would be very glad to have someone from the Treasury Department attend the Newark meeting, pointing out that these meetings in any case are open to the public. Mr. Pelley stated that the Regional Shippers' Advisory Boards were organized in 1922. In a report explaining the work of these boards, which Mr. Kendall left with me, the first paragraph gives briefly the reasons for their organization, and is as follows:

"The Regional Shippers' Advisory Boards are organizations of shippers and receivers of freight designed to afford opportunity for informal discussion and settlement of the common problems of the railroads and their patrons. They had their genesis in the necessity of the railroads for more accurate and dependable information concerning transportation demands. Amount of equipment and its distribution throughout the country to meet shippers' needs is dependent upon advance information as to prospective traffic movement. The shipper has more knowledge of his anticipated requirements than anyone else. Prior to the organization of the Boards he had no medium by which to transmit in any organized, collective manner such knowledge, nor did the railroads have the facilities for accumulating it. The result was a dislocation of facilities, a congestion in one section with a consequent shortage in another. This led not only to a serious impairment of service but engendered misunderstanding, general complaint and much bitterness."

The meeting to take place in Newark is a meeting of one of the 13 regional boards which cover the entire United States. The total membership of all the boards amounts to about 16,000.

EDA

GRAY

BERLIN

Dated September 27, 1939

Received 8:12 p.m.

Secretary of State

Washington

1455, September 27, 5 p.m.

As is customary during the third week of the month the Reichsbank note circulation declined, the September 23 figure of 10,303,000,000 marks representing a decrease of 305,000,000 from the position at mid-month but an increase of 1,600,000,000 marks over the circulation on August 22 last.

Total Reichsbank loans and investments also decreased during the third week by 320,000,000 marks to a figure of 11,555,000,000 marks. The separate item of bills and checks (including Treasury bills) decreased even more, the total of 9,904,000,000 being 426,000,000 under that of September 15. It is assumed the decrease was purely in commercial bills there being no indication of such a slackening of government credit demand on the Central Bank. Thus during the week holdings of eligible securities increased from 90,000,000 to 1,254,000,000 marks and the portfolio of miscellaneous securities expanded million marks to 1,463,000,000

marks

EDA - 2 - #1455, September 27, 5 p.m. from Berlin

marks indicating resumed demand of the Government, the Reich Railways and Posts on their operating credits with the Reichsbank.

Although the real budget of revenues and expenditures of the Reich is kept secret it has been the practice of the Treasury once a year to publish a provisional law which contains a few administrative provisions and details as to minor special credits. A supplementary budgetary decree dated September 12 but published in the REICHGESETZBLATT only on September 22 has now appeared. The decree consists merely of two figures a forecast of extraordinary revenue in the amount of 15,000,000 marks and extraordinary expenditure in the same amount. The latter figure is explained only by an accompanying note that the necessary amounts will be appropriated to individual government department's. Paragraph three of the decree authorized the Minister of Finance to provide 15,000,000 marks by the way of credit transactions but the nature of these transactions is not revealed in the decree.

Aside from the demands on the Reichsbank for credit to finance the government's war expenditures (see my 1314, September 19, 10 a.m.) increased

Central

EDA - 3 - #1455, September 27, 5 p.m. from Berlin

Central Bank credit will presumably result from the operations of the "OEFFA" the initials of the Deutsche Gesellschaft Fuer Oeffentliche Arbeiten or the "German Corporation for Public Works" which the economic press announces will endorse bills by the banks on industrial or other firms having to make new investments as a result of the shift to wartime production and these bills will then be eligible for rediscount at the Reichsbank. The OEFFA will also guarantee bank credits granted industrial firms for war production purposes up to 95% of their amount, the remaining 5% being left at the bank's risk. It will also grant emergency credits to industrial commercial concerns whose liquidity has been impaired by requisitioning or blocking of their material stocks and inventories of articles of products. The OEFFA was founded in 1930 to finance employment schemes and public works and its capital stock of 150,000,000 marks is owned by the Reich. By 1937 it had handled credits aggregating 1.25 billion marks. The company went into liquidation in 1937 because its tasks had been fulfilled but this liquidation was rescinded September 22 in view of its new role as a government agency for war industrial financing. Its present capital reserves and profits total

309,000,000

EDA - 4 - #1455, September 27, 5 p.m. from Berlin

309,000,000 marks.

Repeat to Treasury from Heath.

KIRK

KLP

RECEIVED

SEP 28 1939

TREASURY DEPARTMENT
Office of the Secretary
General Building of the Treasury

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 27, 1939, 8 p.m.

NO.: 2215

FOR THE TREASURY.

The securities market was again calm and rente issues continued their recent advances. There was also indication of investment buying in first class industrial stocks. There were no changes in foreign exchange rates.

This afternoon we visited Couve de Murville, who has taken over the former position which Kueff had. In spite of his personal wish to be mobilized he expects to remain at least another month. Couve de murville said that establishment of a system of exchange control complicated enough in itself had been made more difficult because the country's transportation system is paralyzed, as well as by the departure of peace time personnel and all the other dislocations of war and mobilization just when the control had been begun. He felt that real progress had been made with the system, but could not say that it was as yet running smoothly.

He seemed to be more satisfied as far as financial affairs were concerned. He said there was continued and substantial repatriation of funds, and that the gold holdings of the stabilization fund remain "at about

the

- 2 -

the same level of seventeen billion francs. There continues a good volume for subscriptions to short term Treasury notes and armament bonds, he said, and for this year they do not contemplate any long term borrowing. They will probably draw up a budget for 1940 as usual for civil expenditures, and they will make quarterly appropriations for war outlays. He said that it would not be possible to make an estimate for war expenditures for a period as long as a year.

It seemed to us Couve de Murville was worn down by overwork and harassed by the heavy responsibilities and urgent new problems which are being laid before him hourly. In this connection he expressed his appreciation of the fact that in these difficult days we had been taking only a minimum of his time. It seemed to be his impression that in the near future an invasion of the Netherlands and Belgium by Germany is likely. He believed that the Dutch would fight, but as for the Belgians, he seemed less confident. Estonia and Latvia would, of course, be taken by the Soviets. Couve de Murville leans to the view that Hitler found his Communist friends more exigent than he had anticipated they would be.

He told us that he and what might be called the "Financial General Staff" propose to stay in Paris as long as they can. They do not have any plans for joining the rank and file of the personnel of the Finance Ministry which is at Chinon and other places. **END MESSAGE.**

EA:LWW

BULLITT.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: September 27, 1939, 6 p.m.

NO.: 274

Reference is made to telegram of September 20, 1 p.m., No. 227, from the Legation.

From all appearances a smaller portion of the gold reserve of Poland was brought into Rumania by Polish Government members, who turned it over for safekeeping by the Rumanian Government. The Rumanian Government is resisting pressure for surrender of this gold reserve on the ground that in the final accounting some of it will be needed to defray expenses of internment of Polish troops and expenses incidental to taking care of refugees.

GUNTHER.

RECEIVED

SEP 28 1939

THE LEGATION
OF THE UNITED STATES
OF AMERICA
BUCHAREST, ROMANIA

EA:LWW



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 28, 1939

MEMORANDUM FOR THE SECRETARY

Dr. Gustav Egloff, of the Universal Oil Products Company, Chicago, called this afternoon and discussed at length the processes for producing high-octane gasoline for aviation uses, the effect of such processes on conditions in Germany, and the probable outcome of the war. Much of his discussion bore on technical matters, but his talk as a whole may be summarized as follows:

- (a) Germany will be defeated due to a lack of any process permitting the production in that country of high-octane gas necessary to put their planes in real competition with those of other countries.
- (b) Germany has approximately 6500 first line ships, 50% single-motor pursuits and 50% twin-motor bombers; their pursuit ships consume gasoline at the rate of probably 60 gallons per hour and the bombers at the rate of 84 gallons per hour; that the production of synthetic gasolines will unquestionably be greatly curtailed, if not discontinued, inasmuch as the potatoes and wheat used in such production are required for food, and further, Germany has no ready access to any appreciable quantities of alcohol.
- (c) He placed the production of crude oil in the United States at 1,200,000,000 barrels per year, from which could be processed 300,000,000 gallons of 100-octane gas. This amount could be steadily increased, if necessary, to provide any conceivable quantity of gas of 100-octane or better that might be required by the United States, England and France and any other countries in which they might be interested.
- (d) The United States presently produces 6% of the total crude oil of the world.
- (e) In England an iso-octane plant with a capacity of 20,000 barrels of 100-octane gas per day has been constructed for processing coal and petrolsum; likewise, in France two iso-octane plants, capacity of which he did not know, are under construction. The smaller of the two plants will be completed by January of next year and the larger one within a year hence. The French plants will use crude oil from Texas and Iraque.
- (f) The annual capacity of Germany for the production of crude oil is

4,000,000 barrels per annum; for Poland 4,000,000 barrels per annum; Rumania 48,000,000 barrels per annum; and Russia 202,000,000 barrels per annum. The construction of 3 iso-octane plants was commenced in Russia under the supervision of his company two and one-half years ago and are now 80% completed. He did not consider, even were these plants fully completed, that they would constitute any threat inasmuch as his company's technicians had been withdrawn and there is no one in Russia who has the knowledge necessary to operate them. In the hands of the average Russian personnel the plants would unquestionably be wrecked in a short time, unless supervised by technical personnel from his company, and such personnel is not available.

- (g) In discussing the possible further extension of German and Russian conquest he said that the oil wells in Bessarabia have been mined so that they can be destroyed should any action be taken on the part of either belligerent to acquire them. The wells in the Dutch East Indies have also been mined.
- (h) He summarized the expression of several opinions on the war by stating that he felt that 100,000 airplanes could definitely wipe out Germany and Russia.

Dr. Egloff particularly requested that the information noted under (e) and (g) be held in the strictest of confidence. In leaving, he stated that he should be very happy to come to Washington at any time he could be of service to you personally or to the Treasury Department.


Director of Procurement



ASSURANT SECURITY

TREASURY DEPARTMENT
Washington.

September 28, 1939.

MEMORANDUM FOR THE SECRETARY:

Ferro-Manganese Ore in Bond in the United States.
(September 25, 1939.)

<u>Location</u>	<u>Tonnage</u>	<u>Owner</u>
Mobile, Alabama	25,610	Tennessee Coal, Iron and Railroad Co., Birmingham, Ala.
Pittsburgh, Pennsylvania	324,103	Jones and Laughlin (5%) Carnegie-Illinois Steel Co. (55%) Electro-Metallurgical Co. (40%)
Norfolk, Virginia	57,716	E. J. Lavino, Lynchburg, Va.
Baltimore, Maryland	<u>38,399</u>	<i>Bethlehem Steel</i>
Total	445,828	

Note: The total quantity in bond in the United States is 472,000 tons. The unaccounted difference is scattered around in small parcels at various points.

David Harris

To: Secretary Morgenthau

69

From: Mr. Cochran

September 28, 1939

MEMORANDUM

Yesterday morning at 9 o'clock I handed the Secretary a copy of my memorandum dated September 26th with respect to gold earmarking arrangements between the United States and the Netherlands, and read to him the concluding alternative suggestion, which I told him Mr. Bailie favored. The Secretary seemed to think this was satisfactory, but asked that I bring the matter up at the 9:30 meeting.

I briefly summarized the case at the 9:30 meeting. The Secretary asked if I had consulted the three economists and Mr. White. When I told him that I had only had time to speak with Mr. Bailie, he instructed me to consult the others. Consequently, they were provided with copies of the memorandum.

At 12:40 yesterday Mr. Stewart asked me to come down to talk this matter over. When I was entering the door, however, Mr. Bailie also came in and our reply to the State Department concerning the cablegram from Panama was given prior consideration. While I was in the Panamanian Conference in the afternoon, the economists and Mr. White were, I understand, considering the Dutch question. When I went down, Mr. Stewart was in the room with Messrs. Bailie and Burgess. He told me that his idea was that Knoke should telephone to De Jongh a message as follows: "In checking over our records we find the cablegram of September 26, 1938, authorizing you at that time to earmark gold for our account up to \$25,000,000. Even in the circumstances then obtaining you made slight use of this authorization. We assume, and take it that you agree with us, that in the circumstances of today the arrangement is obsolete." If De Jongh responded in the affirmative, Knoke was to say that we would confirm by cable. If De Jongh had a different view, we were to give him 24 hours notice terminating the arrangement.

In discussing this procedure Mr. Bailie, questioning the ability of Mr. Knoke to put this matter up just as we would have it submitted, suggested that I telephone the Netherlands Bank myself. I asked Burgess his opinion as to the propriety of this. He thought it would be short-circuiting the Federal Reserve Bank of New York, but that the procedure might be justified in that this is a matter of policy between the Treasury. Mr. Stewart left the room. Mr. Bailie tried to get Governor Harrison to obtain his approval to this plan, but the Governor had left. I told Mr. Bailie that if I was the one to submit this proposition to Mr. De Jongh or Dr. Trip, I did not like to give the threat of 24 hours denunciation without further consultation after the telephone conversation might be ended. He told me to consult Stewart further on this, which I immediately did. Stewart said that I should not make this threat of denunciation, but should encourage the Dutch to give us an affirmative reply.

CONFIDENTIAL

-2-

Upon returning to my office, I was called by Mr. Bernstein, who had been in the consultation before I was able to go to join the meeting, but he was not there when I was present. I read him the above draft of a statement to be transmitted by me orally. The manner of transmission and some of the wording were new to him. It was understood that we should go into the matter further and have a discussion this morning. I telephoned Mr. Bailie and asked him not to get in touch with Governor Harrison until we had more thoroughly come to agreement here as to what should be done.

Since I was not convinced of the propriety of my telephoning directly to the Bank of the Netherlands on this matter, which had been the subject of direct understanding between the Federal Reserve Bank of New York, as our fiscal agent, and the Dutch Central Bank, I obtained the Secretary's approval to the idea of my handling it through Mr. Knoks, as ordinarily would have been done. The memoranda of conversations and copies of cablegrams in this file indicate the action taken.

**CONFIDENTIAL**

September 25, 1939

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MR. HUGHES:

Please telephone the following message to Mr. De Jong of The Netherlands Bank:

"In checking through our records, we note that our cablegram of September 26, 1938 authorized you at that time to earmark gold for our account up to \$25,000,000. Even in the circumstances then obtaining you made slight use of this authorization. In the present changed circumstances you have followed the practice of releasing gold from your earmarked account with us when you required dollars. We assume, therefore, that in the present state of affairs the authorization of September 26, 1938 has lapsed. We desire of course to cooperate with you as always but we desire to confirm the understanding that neither bank shall sell gold to and earmark it for the benefit of the other party without prior consultation and agreement."

If Mr. De Jong indicates agreement to the foregoing, then confirmatory cables should be exchanged.

E. M. Cochran

(Read to Mr. Hughes, 3:40 P.M. Sept. 25. He agreed entirely and would endeavor to telephone it tonight.

(Init.) E. M. C.

H. M. C.)

Approved by: HB:HB:WS:MO

END:mak

9.26.39

CONFIDENTIAL

FEDERAL RESERVE BANK
of New York

92

October 2, 1939.

Sir: Attention: Mr. H. Marle Cochran

In accordance with your telephoned authorization we, as fiscal agent of the United States sent the following cablegram, the form of which was approved by you by telephone, to De Nederlandsche Bank, Amsterdam, Holland on September 29, 1939:

ONE "No. 282 Attention: Mr. De Jong
As explained to you today over the telephone we assume that in the present state of affairs the \$25,000,000 authorization contained in our cable No. 277 of September 26, 1938 has lapsed.

TWO We desire, of course, to cooperate with you as always but we desire to confirm the understanding that neither bank shall sell gold to and earmark it for the benefit of the other party without prior consultation and agreement.

THREE Kindly signify your agreement by acknowledging receipt of this cable. Many thanks."

A reply to the abovementioned cable was received by us today from De Nederlandsche Bank and is quoted below for your information.

"No. 266
Your No. 282 received. Contents noted."

Respectfully,

/s/ L. W. Knoks

L. W. Knoks
Vice President

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

CONFIDENTIAL

September 30, 1939
10:45 a.m.

HMJr: Hello.

Operator: Ambassador Bullitt. Go ahead.

HMJr: Hello.

Ambassador
Bullitt: Hello, Henry. How are you?

HMJr: I'm just fair, Bill. I've been a little under the weather.

B: Well I'm awfully sorry. Look here, Henry, what I want to tell you is this. I'm sending you a telegram on this subject right away but I wanted to tell you over the phone at once.

HMJr: Go ahead.

B: The President and the Managers of the Bank Polaki, that's the Polish National Bank.....

HMJr: Yes.

B:delegated Director Zygmunt Karpinski -
K-a-r-p-i-n-s-k-i.....

HMJr: Yes.

B:with full powers, which I have here - had the original of and of which I have a copy - which I just sent to you by telegram - he disposed on his own account of the stocks of gold which are now or will in the future be deposited to the account of the Bank Polaki in foreign banks.

HMJr: Yes.

B: And he is authorized also to dispose of the balances of the accounts of the Bank Polaki with his foreign correspondents.

HMJr: Can you talk a little louder, Bill?

B: He is also authorized to dispose of the balances of the accounts of the Bank Polaki with his foreign correspondents.

HMJr: Yes.

B: And should he for legal reason on his own authority find it difficult to dispose of the said drops in balances the president and managers of the Bank Polaki authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the Bank Polaki together with Director Karpinski.

HMJr: Yes.

B: Now, in other words, Karpinski holds full powers from the National Bank of Poland. You understand?

HMJr: I - I hear you.

B: And he - he called on me today at the request of the Polish Ambassador and submitted these full powers to us, which appeared to be in full and legal form. And he asked me if I would communicate that to you....

HMJr: Yes.

B:and if - and also to the Secretary of State, of course....

HMJr: Yes.

B:and if I could ask that that be communicated to the Federal Reserve Bank and to the correspondents in the United States of the Polish National Bank.

HMJr: Yes.

B: Those correspondents are the National City Bank, the Guaranty Trust Company, the Bankers Trust Company, the Chase National Bank and the Irving Trust Company.

HMJr: Yes.

B: You understand the reason for that?

HMJr: Ah - I - I think so.

B: Yes.

HMJr: Ah - (Laughs) - should I read Charlie Ross?

B: (Laughs)

HMJr: (Laughs heartily)

B: Yeah.

HMJr: What?

B: Yeah, that listens all right.

HMJr: (Laughs)

B:amuse you?

HMJr: What?

B: Did that amuse you?

HMJr: Did it?

B: I say, did that amuse you?

HMJr: Of course it did.

B: (Laughs) Good enough.

HMJr: Oh - it - that was wonderful!

B: (Laughs)

HMJr: I hope they make a record of this one.

B: They'll try. Well, Henry.....

HMJr: Yeah.

B: There it is. Now I will telegraph all of that.....

HMJr: Yes.

B:at once to let you know that immediately....

HMJr: Yes.

B: ...in case there should be any attempts at action from other quarters today.

HMJr: Well, you get it to us and I'll put our attorneys right on it.

B: That's fine. Much obliged, boy. How - you've still got that jaundice, have you?

- 4 -

EMJr: Still got - no, I just came from the doctor's and he said it's over but it's left me kind of shaky, see?

B: That's too bad.

EMJr: I shook it off, I had that much vitality.

B: Uh huh. Good for you, Henry.

EMJr: Ah - the - they think now it looks as though they might come to a vote in the Senate in about two weeks.

B: Two weeks?

EMJr: Yes.

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

EMJr: Right.

B: I'll not expect to see the vote because we expect to be blown up here in about one week.

EMJr: Really?

B: I hope it's the proper vote anyhow. (Laughs)

EMJr: Well.

B:anyway.

EMJr: In about a week? What?

B: Yeah.

EMJr: That's nice.

B: Yes. Well, God bless you, boy. Take care of yourself.

EMJr: All right.

B: Goodbye.

EMJr: Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Paris****DATE: September 30, 1939, 8 p.m.****NO.: 2287****THIS IS A CONFIDENTIAL TELEGRAM.**

1. I was requested today by the Polish Ambassador in Paris to receive *Zygmunt Karpinski*, the Director of the Bank Polski, which is the National Bank of Poland. Director Karpinski has been given full powers from the President of the Bank Polski and the directors to disburse on his own authority all of the stocks of gold and balances which are now or will in the future be credited to the account of the Bank Polski in banks in foreign countries, the Ambassador said.

This afternoon I received Director Karpinski. He submitted to me the original of his full powers and they seemed to be in good legal order. He also submitted a copy of these full powers attested by the Polish Ambassador, ^{in Paris,} *Lukasiewicz*, and sealed with the seal of the Paris Embassy of Poland.

The following is a copy of a translation of these full powers:

PAP

GRAY

PARIS

Dated September 30, 1939

Rec'd 6:37 p.m.

Secretary of State
Washington

2267, September 30, 8 p.m. (SECTION TWO).

"Luck, September 9, 1939.

Full powers.

The President and the managers of the Bank Polski hereby delegate Director Zygmunt Karpinski to London with following full powers:

Director Karpinski is authorized to dispose on his own authority of the stocks of gold which are now or will in future be deposited to the account of the Bank Polski in foreign banks.

Furthermore, Director Karpinski is authorized to dispose of the balances of the accounts of the Bank Polski with his foreign correspondents.

Should for legal reasons the disposal by Director Karpinski on his own of the said stocks and balances be impossible, the President and the managers of the Bank Polski hereby authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the

Bank

PAP -2- 2267, September 30, 8 p.m. (SECTION TWO) from
Paris

Bank Polski together with Director Karpinski.

The President of the Bank Polski, signed Byrka, the
Manager of the Bank Polski, signed Baranski and Nowak,
certified to by the Polish Ambassador in Paris, Julius
Lukasiewicz.

Paris September 27, 1939."

BULLITT

GW

(PARTIAL PARAPHRASE OF TELEGRAM NO. 2267 continued)

3. I have been requested by Director Karpinski and the Polish Ambassador to transmit ^{immediately} information regarding the full powers to the Secretary of State, the Secretary of the Treasury, the Governor of the Federal Reserve System, and to the United States banks which are correspondents of the Bank Polski, the National Bank of Poland. These United States banks are the Guaranty Trust Company, National City Bank, Bankers Trust Company, The Irving Trust Company, and the Chase National Bank of New York.

Of course, the Government of Poland fears that now that Germany is in physical possession of Warsaw, she may attempt to lay hands on property of the National Bank of Poland by some ruse or legal friction.

BULLITT

RECEIVED

DEC 5 1939

TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve System

COPY

101

DEPARTMENT OF STATE
Washington

In reply refer to
EA

October 2, 1939

My dear Mr. Secretary:

The Department has been informed by the American Ambassador at Paris that the Polish Ambassador to France has stated to him that Zygmunt Karpinski, Director of the Bank Polaki, had been given full powers from the President of the Bank Polaki and the directors to disburse on his own authority all of the stocks of gold and balances which are now, or will in the future, be credited to the account of the Bank Polaki in foreign banks. The American Ambassador also reported that Director Karpinski submitted to him on September 30 the original of his full powers and also a copy of these full powers attested by the Polish Ambassador in Paris and sealed with the seal of the Polish Embassy at Paris. Copies of a translation of these full powers, received from the American Ambassador by telegraph, are enclosed.

Director

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

CONFIDENTIAL

Director Karpinski and the Polish Ambassador requested that information regarding these full powers be transmitted immediately to the Secretary of State, the Secretary of the Treasury, the Governors of the Federal Reserve System, and to the United States banks which are correspondents of the Bank Polski. The banks in the United States are the Guaranty Trust Company, the National City Bank, Bankers Trust Company, the Irving Trust Company, and the Chase National Bank.

You are requested to transmit to the banks named copies of the enclosed translation of the full powers given to Director Karpinski, together with the above-mentioned information.

Although the territory of Poland has been occupied by foreign military forces and its Government has had to seek refuge outside the borders of Poland, the Government of the United States regards the Government of Poland as in existence, and continues to treat with it. You may so inform the aforementioned banks and furnish them with copies of this Department's press release no. 480, dated October 2, 1939, a number of which are enclosed.

Sincerely yours,

(Signed) CORDELL HULL

Enclosures:
Translation.
Press release.

C O N F I D E N T I A L

TRANSLATION OF FULL POWERS

"Lack, September 9, 1939.

Full powers.

The President and the managers of the Bank Polaki hereby delegate Director Zygmunt Karpinski to London with following full powers:

Director Karpinski is authorized to dispose on his own authority of the stocks of gold which are now or will in future be deposited to the account of the Bank Polaki in foreign banks.

Furthermore, Director Karpinski is authorized to dispose of the balances of the accounts of the Bank Polaki with his foreign correspondents.

Should for legal reasons the disposal by Director Karpinski on his own of the said stocks and balances be impossible, the President and the managers of the Bank Polaki hereby authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the Bank Polaki together with Director Karpinski.

The President of the Bank Polaki, signed Byrka, the Manager of the Bank Polaki, signed Baranski and Nowak, certified to by the Polish Ambassador in Paris, Julius Lukasiewicz.

Paris September 27, 1939."

C O N F I D E N T I A L

COPY

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DEPARTMENT OF STATE

FOR THE PRESS

OCTOBER 2, 1939
No. 480

STATEMENT BY THE SECRETARY OF STATE

More than twenty years ago the United States recognized, and has since maintained diplomatic relations with, the Polish Government. Poland is now the victim of force used as an instrument of national policy. Its territory has been taken over and its Government has had to seek refuge abroad. Mere seizure of territory, however, does not extinguish the legal existence of a government. The United States therefore continues to regard the Government of Poland as in existence, in accordance with the provisions of the Constitution of Poland, and continues to recognize Count Jersy Potocki as its Ambassador in Washington. For the present at least Mr. Biddle will remain near the Government to which he has been accredited.

(C O P Y)

105

October 3, 1939.

Dear Sir:

Enclosed is a copy of a letter which has this day been sent to the Federal Reserve Bank of New York, together with the enclosures referred to in such letter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Marriner S. Eccles,

Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

EB:meu
10/2/39

Initialed: EB MHFJr EB JV WR HDW HH WNT DMB JWH

C O N F I D E N T I A L

(COPY)

October 3, 1939.

Dear Sirs:

Enclosed herewith is a copy of a letter dated October 2, 1939 received from the Secretary of State, together with enclosures referred to therein.

You are instructed to forward immediately to the Guaranty Trust Company, the National City Bank, the Bankers' Trust Company, the Irving Trust Company and the Chase National Bank copies of the translation of full powers and State Department Press Release No. 480 dated October 2, 1939, both of which are enclosed, and also the information contained in the enclosed letter from the Secretary of State.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

EB:neu

Initialed: EB KEFJr EB JY WR HDW EH WHT DMB JWE

CONFIDENTIAL

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3/4

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 28, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was quiet today. Sterling ranged between 4.01-5/8 and 4.02-1/4 and closed at 4.02.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £645,000 from the following sources:

Commercial concerns.....	£ 309,000
Foreign banks (Europe and Far East).....	£ 236,000
Fed. Res. Bk. (£50,000 from Norway, £50,000 from Sweden).....	£ 100,000
Total	£ 645,000

Purchases of sterling amounted to £587,000 as indicated below:

By commercial concerns.....	£ 167,000
By foreign banks (Far East, Europe and South America).....	£ 420,000
Total	£ 587,000

The following amounts of gold were released from earmark and sold today:

National Bank of Belgium.....	\$ 827,000
Central Bank of Chile.....	\$ 350,000
National Bank of The Republic, Colombia.....	\$ 700,000
Total	\$ 1,877,000

The United States equivalent of the London spot silver price figured 41.63¢ today. On September 27, it was 42.33¢, and on September 26, 42.27¢. In New York, Handy and Harman reduced their buying price for foreign silver to 35-1/4¢ today. On September 27, it was 37-1/4¢, and on September 26, it was 39-1/8¢. There was a fair amount of offerings of silver in New York with few buyers. As Handy and Harman were reluctant to purchase large quantities of silver, they took the alternative of reducing their price.

As the Treasury's price for foreign silver has been maintained at 35¢, there is a possibility that such silver may be offered to the Treasury in the next few days for purchase under the Silver Purchase Act.

The Federal Reserve Bank informed us this evening that the Russian State Bank today withdrew \$1,000,000 from its account with the Federal, transferring it to the Chase Bank. The Amtorg is said to be needing money more than ever; and the Chase Bank is being called upon to certify Amtorg checks.

F. M. S.

September 28, 1939

2:30 pm

Present:

Mr. Hanes
Mr. Helvering
Mr. Irey

Mr. Helvering: I wanted to clear up this thing, this situation in Louisiana so that at least if we are doing something that is absolutely wrong, that we are not going to be continually blamed for something we are not responsible for. The gentlemen you had over here, whose name I can't pronounce

Mr. Irey: De Rouen.

HM, Jr: "Congressman from the 7th District, Chairman of the Louisiana Delegation."

Mr. Helvering: He came over and I had a talk with him and, in addition, there have been two other Congressmen and Senator Ellender. Of course he was "talking in confidence to me" -- very confidential to me.

They have been putting up the plea that the situation in their State is like this: that the progressive element, which they represent and which is backing the President 100%, is opposed by another group which is backed up by a syndicate of papers.

Mr. Hanes: Tories.

Mr. Helvering: Yes. And immediately upon investigation or presumably investigation of somebody, these papers take it up and come out with headlines "Here is another fellow on the way to jail" and it's disturbing their organization.

(HM, Jr at this point said to put in the record, "snickers".)

Mr. Helvering: They say they have been to the

-2-

Attorney General and the Attorney General says it is all Mr. Helvering's agents' fault. The Attorney General has not told me this. They told me this.

Well, I told them there was nothing in this that we needed to do today and if we were just playing in the hands of the other fellows I was willing to look into that, but that they must not have any idea the investigations we were making were being called off or anything of that nature. If we found that there was any statute or any limitations that prevented us from making a thorough investigation I would have no adverse recommendation to make other than we tend to the big cases and let the little ones they complain about go until we got advice from you.

But I asked Mr. Irey to contact Mr. Rogge, who happens to be in town, and who is the prosecuting attorney at this time, and I will let Mr. Irey tell you what he said in their conference today noon.

Mr. Irey: I pointed out it was a buck passing proposition and had been to the Attorney General before, who referred it to the Treasury and now was being referred back. The situation in Louisiana is entirely different from other sections. Ordinarily our agents make an investigation and report and send it to us and we, in turn, send it to the Attorney General. Up to that time it is entirely a matter within our jurisdiction, but in this particular case, under agreement reached between the Treasury and the Justice Department, Roggie is in charge of the whole thing and the investigation is actually under his direction, just as the Pendergast case was in Kansas City. Therefore, we don't know, officially, what our agents are doing. They are doing the things he wants them to do.....

Mr. Helvering: Detailed to him.

Mr. Irey: and the responsibility, therefore, was his and, without attempting to pass judgment on this request, it was a matter with the Department of Justice. Rogge said, "I assume full responsibility for it and so far as I am concerned we won't stop one second on the investigations. We will go right on through with them."

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He said, "If we should stop on any investigation, large or small, for a day or two, we would lose face in Louisiana. We would be criticized and the Federal Government would be charged with backing down. Therefore, I don't think we should stop anything."

I told him I wasn't there to suggest that we stop it or go on. It was his responsibility. Something for him to determine. "Therefore, I want you to understand it is necessary for us to send these people back to you because it is your responsibility." He said, "I wish you would have them come to my room and I will tell them it is my responsibility. It won't stop any investigation."

HM, Jr.: Let me get this thing straight, because when this man came in and he started to tell me about this thing, maybe this is some arrangement made while I was gone, because I wasn't entirely familiar with it. See? But this particular Congressman mentioned some agent from Texas.

Mr. Irey: Lohn.

HM, Jr.: Is that particular agent detailed to Rogge?

Mr. Helvering. Yes. He's one of them.

HM, Jr.: Let me go back. Was it on a certain date that it was decided to give Mr. Rogge a certain number of agents?

Mr. Irey: No, sir.

Mr. Hanes: I don't

Mr. Irey: (To Mr. Hanes) It was in your office that the conclusion was reached to send the case to the Department of Justice for Grand Jury investigation.

Mr. Hanes: Go back to the beginning when we got the case first.

Mr. Irey: We got a report. It was incomplete, but the Attorney General was very anxious to have the case referred to him for prosecution.

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HM, Jr: What case?

Mr. Ireys: The Louisiana situation. Shushan, Weiss, Maestri, Earl Long, and that crowd.

HM, Jr: Was this while I was in Europe?

Mr. Hanes: I think so.

This is what happened, as I remember it. Ed Foley came in to see me one day and said -- I think Elmer was there; maybe someone else -- that the Attorney General had called him up last night at midnight, get him out of bed, and said, "Have you got anything on Smith, the President of Louisiana University?".

HM, Jr: I was here when that happened.

Mr. Hanes: Were you?

HM, Jr: That particular incident.

Mr. Hanes: It all happened in my office.

HM, Jr: What happened in your office?

Mr. Hanes: Ed Foley says "We have a case against Smith, but it is incomplete. The Attorney General said 'Give it to me right away. I must have something tomorrow.'" Ed Foley says, "We have not got a good case." Elmer said, "The case is not bound up." But the Attorney General insisted on having something, so I said, "Well, it looks to me like the fellow is guilty. He's already got nine indictments against him -- I mean, nine charges -- in the public press, so we are not going the public press with something they don't already know and we are not jumping off half-cooked and it's all right, in my opinion, to give it to the Attorney General half finished."

HM, Jr: And then, in order to help him, we gave him some men.

Mr. Ireys: The agents working on it were permitted to work with Rogge, who took charge.

HM, Jr: And out of that developed?

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Mr. Helvering: The "Deduct Fund" investigation.

HM, Jr.: What is that, for my enlightenment?

Mr. Hanes: I would like to know too.

Mr. Helvering: I never knew about the system before. What they did in this so-called "deduct fund", they just deducted from every salary a certain percent. Took it out and paid them the balance.

Mr. Irely: Five and ten percent from every State employee.

Mr. Hanes: For the Machine?

Mr. Irely: Yes.

Mr. Helvering: That came to light in the investigation and that's the thing

HM, Jr.: That's the fellow, what's his name?

Mr. Helvering: Fuchs.

HM, Jr.: This is Fuchs. What was he?

Mr. Irely: Collector of the fund.

He's in the hospital and they say we are prosecuting him while he's in the hospital.

HM, Jr.: Without going into this thing -- Mr. Hanes agrees with me -- this is the only case I had. He came to see me (Congressman De Rouen). "Personal matter." And wanted to know whether I was directing this business. I said, "No. I am not directing anything. Yes; I was interested in Huey Long's case, but as far as I know everybody has paid his tax. I was connected with the original Huey Long case."

Mr. Irely: That's true.

HM, Jr.: "And when that was finished my interest in the Louisiana cases is over. I don't know, this may be some

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old isolated case."

But I was listening for the Fuchs case, because Irey told me about it a week ago and I called you up (Helvering) to ask you to see him.

Mr. Hanes: Do I understand the political machines are asking you to stop the investigation of the collection of pull our men off?

Mr. Helvering: The older it gets, the easier it will be. They say there are two factions down there, both Democrats, but they call them down there "Progressive Democrats" and "Conservative."

Mr. Hanes: The Progressives are the ones who have been stealing the money?

Mr. Helvering: They are in the saddle. The other bunch, they control the newspapers.

Mr. Hanes: But they are not on trial?

Mr. Helvering: There is a campaign down there which ends on January 10th.

HM, Jr: Political campaign? Primary Day?

Mr. Helvering: Yes. That's all they have down there. They say that these fellows in control would control. Immediately one of Irey's men appear -- that's the newspaper men -- they would put great headlines "Mr. So and So associated with Congressman So and So or Senator So and So is under investigation and undoubtedly will be indicted and tried."

HM, Jr: Let me say for me, and I am sure Mr. Hanes will underwrite me, unless the Attorney General asks, tells us he wants to discontinue this arrangement which he asked for, that we will give no instructions, except that our men should go ahead full speed.

Mr. Hanes: You are 100% right.

HM, Jr: You notice I did not say if the Attorney

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General tells us to stop. If the Attorney General wants to discontinue the arrangement he had got

Mr. Helvering: I told them if there was any respite that did not prevent us from -- of course, what they are doing, practically this whole bunch is going along with us on this fight on the Hill.

Mr. Hanes: I won't have anything to do with anything in Louisiana. Crookedest -- I think we ought to clean it up; don't care who gets stepped on, and I am not going to be a part of any Second Louisiana Purchase.

Mr. Irey: That would be the Third.

Mr. Hanes: I will say this on the public street corners that I will not be a party to pulling anybody off and least of all Louisiana.

HM, Jr.: I endorse it 100% and I don't want Guy -- let's say we understand each other further -- I don't want to duck it.

Mr. Helvering: I gave no information I was going to duck anything. If they say the Federal Government was proceeding along a line that favored one side as against another ...

Mr. Hanes: If we have a case or can find a case against the other side, I feel exactly the same way. As far as I am concerned, there are no sides in this thing. They are crooks, and the sort of crooks we go after regardless of whether they are white, black, yellow or red.

HM, Jr.: It's a good meeting. It has brought me up to date. I wasn't up to date. No question that you, as Commissioner, will have to take, will have to say, "This is the policy and we are going to go through with it," and take the time to explain it. These men have been loaned, but I would say this is a joint Treasury-Attorney General's operation. Isn't that the way to say it? I wouldn't lay it at Rogge's door particularly.

Mr. Helvering: No. But I might supplement what I have said before. They have told me that they have been advised that it is no concern of the Attorney General's Office until they get the case to prosecute and that we were

making the investigation.

Mr. Hanes: The original request for this thing came from the Attorney General.

Mr. Irey: His insistence.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 28, 1939

116

MEMORANDUM FOR THE SECRETARY

Consolidated contracts for electric current are in effect in New York City, N. Y., Philadelphia, Penna., and Baltimore, Md.

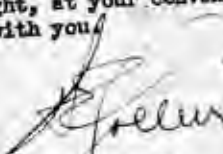
Under the New York City contract yearly unit costs have decreased steadily from an average of 1.775¢ per kwh in 1935 to 1.468¢ per kwh in 1939.

Under the Philadelphia contract there has been a decrease in the Government rate as originally established, from 3.5¢ per kwh to 3¢ per kwh. Close supervision has resulted in lowered costs for some of the larger users which, under the contract, are billed at high tension rates.

The Baltimore contract is based on commercial rates. The cost of current has been reduced recently on account of the fact that the Procurement Division requested a redetermination of demands as a result of rate studies. The consummation of a consolidated contract covering all Government agencies in the Baltimore area is now a matter of negotiation.

Studies and negotiations have been constantly carried on by the Procurement Division in an effort to execute consolidated contracts in various of the principal cities. Much information has been obtained from other Government agencies, the Federal Power Commission, and various operating companies. Since Public Utilities in general are controlled by Public Utilities commissions, state laws, or city ordinances, it is a matter of some difficulty to arrive at cost reductions. The Procurement Division has approached the problem on the basis of engineering studies and the load characteristics of the Government requirements. In a number of cases the total load of operating companies has been materially reduced during the past few years due to general business conditions. This factor has made companies less receptive to proposed consolidations which would effect reduced billings to the Government.

It would be appreciated if I might, at your convenience, be given an opportunity to discuss this matter with you.


H. E. Collins,
Director.

September 28, 1939.

MEMORANDUM FOR THE SECRETARY:

With respect to the attached, the Chinese Ambassador confirms that French authorities are permitting transit of Chinese goods as before the war, including motors and gasoline, with the exception of munitions. He stated that before the war certain munition shipments had been permitted in a disguised form.

Since this checks with information from Bullitt, I did not think you would want to cable our Consul in Indo-China for further information.

J.P.C.

Joseph P. Cotton, Jr.

Attachment.

September 28, 1939

11:45 a. m.

Present:

Mr. Cotton
Mrs. Klotz

HM, Jr: This is a cable from Bullitt. You read it and I will explain it to you.

Call up the Chinese Ambassador and ask him if you can come up to see him. Tell him I telephoned Bullitt and we got word back. I don't know who Mr. Leger (mentioned in the cable) is?

Mr. Cotton: He's a fairly prominent fellow in the Foreign Office.

HM, Jr: And that Bullitt tells us they say it isn't so and unless the Chinese can get us more definite information there is nothing we can do about it.

Mr. Cotton: I take it that he already knows that you took it up with Bullitt.

HM, Jr: He told me that munitions, gasoline and trucks were no longer allowed to go over this route. Weren't you here?

Mr. Cotton: Yes.

HM, Jr: They never allowed munitions. The question gets down to trucks and gasoline.

Mr. Cotton: And you took it up. You asked Bullitt.

HM, Jr: I asked Bullitt and the French say it isn't so. And why don't you also, through Merle Cochran, get off a cable to our Consul at the mouth there, at Haiphong, and ask him whether they are still permitting trucks and gasoline to go over this railroad or not. Can I forget it?

Mr. Cotton: Yes.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 27, 1939, 8 p.m.

NO.: 2216

PERSONAL FOR SECRETARY MORGENTHAU.

Today I saw Leger and asked him for the facts regarding the report which you telephoned to me yesterday. Leger said that the restrictions to which you made reference had indeed been imposed automatically for the first three days following declaration of war by France. However, he said the restrictions had been removed after three days, and transit was now going on as before war was declared.

BULLITT.

RECEIVED

SEP 28 1939

EA:LWW

RECEIVED
 DEPARTMENT OF STATE
 SEP 28 1939

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE Sept. 26, 1939.

TO Secretary Morgenthau
 FROM Mr. Haas *HA*
 Subject: Wheat export sales and other market data from the
 Federal Surplus Commodities Corporation.

Note: Data on export sales since September 1 have been very fragmentary. Some trade reports suggest, however, that a good export business is being done under cover in wheat and some coarse grains, but the actual amount of the sales cannot be ascertained.

Sept. 1: The day Germany invaded Poland. Liverpool market dull. Trade at a standstill, with all offers of cash wheat withdrawn.

Sept. 7: Sales of Canadian wheat today for export estimated at one million bushels. (Destination not stated.)

Sept. 8: A scarcity of boats is slowing up sales of Canadian cash wheat for export but shipping facilities are available for October and later.

Sept. 9: Export sales of Canadian wheat estimated at about 800,000 bushels. Norway supposed to have taken 120,000 bushels. The high quality of this wheat makes it desirable for mixing with other wheats. It was reported that English mills had been requested to use only 10 per cent Canadian wheat in their grind for the present. This will reduce the needs of imported wheat to some extent.

Sept. 11: World shipments last week were over 10,200,000 bushels. Of this amount over 4,800,000 were from North America.

Sept. 12: No European demand for wheat at present but expected soon. No export business reported on United States or Canadian wheat.

Secretary Morgenthau - 2

Sept. 13: Buying came in on reports that the Soviet Government had ordered all ships en route to England to return to home ports and on reports of a large export business on Manitoba wheats.

It was estimated that sales of Canadian wheat and flour totalled about 1,000,000 bushels. It is understood that shipments will be rushed to Europe. Some sales of domestic flour reported to Central America and West Indies.

Sept. 14: Smaller Black Sea and Argentine wheat shipments helped strengthen bullish enthusiasm. Very little wheat has cleared from Russia, which leads the trade to believe that their crop was small or they are building up reserves. Broomhall says that the entire Volga region suffered from excessive heat and dryness this summer.

Canadian marketings of new wheat continued heavy. Export sales of Canadian wheat and flour again estimated at close to 1,000,000 bushels.

It is now definitely announced that for the remainder of the war all of Australia's wheat crop will be purchased by the Commonwealth government and marketed through a compulsory pool.

Sept. 15: It is difficult to get much information from Europe on export business but what little information does come through indicates that the business is mostly under government supervision. Holland, it was reported, has chartered five ships to carry grain from the United States.

Sept. 16: During the week a considerable amount of Manitobas were worked to Antwerp and Rotterdam and other ports but actual amounts not obtainable.

Sept. 18: A freight rate of 60 cents per hundred or 36 cents per bushel was reported paid for a shipment of wheat from New York to Sweden, which compares with a rate of 14 cents per hundred or 8.4 cents per bushel a month ago.

- Sept. 20: England was reported making inquiries for large quantities of wheat in Argentine. It is hard to get details now on export sales of Canadian wheat, but during the past five days it is estimated that sales have been made for at least 2,000,000 bushels.
- Sept. 21: Canada reported export sales of about 200,000 bushels. No sales of domestic wheat reported today for export. Argentine shipments for the week are estimated at over 2,500,000 bushels as against 878,000 bushels for the same week last year. Black Sea shipments were 642,000 bushels compared with 1,936,000 bushels a year ago, with no shipments reported from Russia.
- Sept. 22: Export demand for wheat very slow. Sales of Manitobas reported at about 100,000 bushels. Roumania is reported to be storing large quantities of grain in lighters so that very few barges are available to move wheat and corn for export. The movement to Germany has slowed up.
- Sept. 25: The British Government was reported buying both Argentine and American corn, and sales of American corn estimated at 1,200,000 bushels but not definitely confirmed.

TREASURY DEPARTMENT

123

INTER OFFICE COMMUNICATION

DATE

September 28, 1939

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

Re: Ince's inquiry as to Panama Payments

Mr. Richard Ince raises two questions with respect to the Panama Annuities. Under the new Treaty the annuities amount to \$430,000 (or 430,000 balboas) a year beginning with 1934. Under the original Treaty they amounted to \$250,000 a year. The questions are:

- (1) Will the \$180,000 difference in the annuities in the future be paid to Panama or the American holders of Panama bonds?
- (2) Will the R.F.C. or some other governmental agency purchase the proposed issue of refunding bonds? The refunding agreement between Ince's group and Panama, which agreement expires in May, 1940, and under which agreement the \$430,000 annuity is pledged to the payment of the bonds, necessitates the sale of about 5½ million dollars of Panama bonds at a rate not exceeding 3½ per cent. Ince feels that the private market is not likely to absorb such bonds at such a rate and would like some Government agency like the R.F.C. to buy the bonds.

Our Position:

(1) Traditionally the State Department certifies to us to whom these Panama annuities are to be made and in what amounts. No payments are made until after approval and certification by the General Accounting Office. We simply follow the State Department's instructions and the certification of the Comptroller General in making the payments. Furthermore, Welles

advised you by confidential letter dated April 10, 1936 in reply to our inquiries that Panama had agreed that the whole \$430,000 annuity was to be paid over for the benefit of the bondholders. If the State Department is willing to advise Ince of this, Ince should be completely satisfied on his first inquiry. As I see it, the most that we ought to do is suggest to State that it announce this fact so as to quiet the fears of American bondholders. The \$360,000 which was recently paid directly to Panama was to reimburse Panama for an equal amount which Panama has paid out of its own funds during the last few years to the bondholders. Ince does not raise objection to this payment to Panama since under the agreement which his group made with Panama the \$360,000 was to be paid to Panama.

(2) With respect to a Government agency purchasing the new bonds, I suggest that we put Ince in touch with Claude Hamilton of the R.F.C. If you wish I shall be happy to speak to Hamilton in advance and arrange an appointment. My offhand impression is that the Government agencies are not in a position to purchase the refunding bonds.

E. W. H.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 28, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

PURCHASES FOR STABILIZATION FUND

<u>Date</u>	<u>Amount</u>	<u>Issue</u>	<u>Price</u>	<u>Present Price</u>
Sept. 22	\$ 250,000	2-7/8s 1955/60	100.5-9	101.29
	50,000	2-3/4s 1958/63	99.9	100.25
	300,000	2-3/4s 1960/65	99.5-9	100.25
25	80,000	2-7/8s 1955/60	100.14	101.29
	<u>102,000</u>	2-3/4s 1960/65	99.14	100.25
Total	\$ 782,000			

On the basis of present prices, the dollar value of these purchases is now approximately \$12,000 above that at the time of purchase, a gain of about 1-1/2%.

FS

PLAIN

London

Dated September 28, 1939

Rec'd 12:40 p.m.

Secretary of State,
Washington.

1856, September 28.

FOR TREASURY FROM BUTTERWORTH.

1. The Bank of England reduced the discount rate from 4 to 3 per cent today. The last time the rate was at 3 per cent was April 21, 1932. This reduction somewhat mitigated the effect which the heavy tax increases had on the stock exchange.

2. The London press reaction to the budget is of interest. The FINANCIAL TIMES editorial for example contains the following sentence: "There can be no shadow of doubt that by these means (increases of taxes) the Chancellor will achieve the very necessary object of curtailing private expenditure in order to give the government free scope for securing the supplies necessary for the campaign." On the other hand the FINANCIAL NEWS editorial after pointing out that the margin of income left after taxation to a man with two children and an income of £150,000 a year is reduced by 44 per cent but for the man with £1000 a year it is reduced by only 7 per cent observes that obviously the new taxation will

seriously

FS 2-No. 1856, September 28, from London

seriously reduce the consumption of the rich and thus secure the Chancellor's objective but that the percentage reduction for the lower income range is small, indeed at the £500 a year level it is only 4 per cent and in the case of a married man with two children earning £300 a year or less there is still no direct taxation at all. "It appears that a further reduction of these lower class's consumption is indicated." It further points out that according to Colin Clark's estimates of consumption which total around £4,300 million, roughly 65 per cent is spent by the people with incomes of less than £250 and 35 per cent by the remainder. In a full year therefore the increases in direct taxation will reduce the consumption of the class earning over £250 per annum by some £160 million while indirect taxation will take £66.6 million most of which will come from the lower income group. The total effect of the new taxation will be to reduce consumption by about 5 per cent and this figure will be reduced to the extent that the rich draw upon savings. The editorial concludes: "If the Chancellor still maintains that no new taxes can be imposed then obviously not very much more can be done than he has done. But there must plainly be a great doubt whether his thesis is correct. Without new taxation,

some

FS 3-No. 1856, September 28 from London

some restriction of consumption by inflation is inevitable and even the excess profits tax - an admirable way of checking some of the untoward results of inflation - will not prevent the injustices and inequities which are bound to arise."

The following is quoted from the TIMES editorial: "Any misgivings which may be felt are not due to any sense of strain or to any objection to the Chancellor's obvious desire to 'pay-as-we-go' as far as possible. But according to his own figures he proposes to take well over one quarter of the national income by taxation and another quarter by borrowing in the current year. It is clearly incumbent on him to conserve both the sources of his revenue and the level of the State's credit. He himself appealed to individuals to cut out all unnecessary capital expenditure in order to have savings to lend to the Government. The main question therefore which arises out of the budget is whether he has really fulfilled his professed intention of taking a long view." This editorial also contains the following passage: "As for the maintenance of credit, yesterday's speech contained little under this head except the appeal to economize and to lend. But this question is vital to successful war finance. One of the main errors during the last war was that the Government paid an excessive price

FS 4-No. 1856, September 28 from London

price for its internal loans. In this war the question will have to be tackled boldly by new methods and perhaps by new minds."

The view of the Socialist DAILY HERALD is that the rich have not been soaked enough and that the poor will feel the increased tax on sugar and beer excessively.

THE DAILY MAIL believes "That the large all-round increases in taxation, inflicted without warning, will mean a further severe dislocation of trade and industry. A more gradual approach to these high taxation levels would have better served the interests both of the exchequer and of industry."

The liberal NEWS CHRONICLE city editor who heads his column today "No inflation budget" considers that "The present budget is the best possible insurance against substantial inflation. It does attempt to sweep into the exchequer and make available for war purposes every penny of the surplus income of the individual, and that is the only possible method, as the Chancellor so well showed in his speech, of preventing the disastrous rise in prices which would result from competitive bidding as between Government and citizens for the available supply of goods.

These extracts from the press indicate the diversity of opinion which is less significant than might be supposed.

That

FS 5-No. 1856, September 28 from London

That the most severe criticism comes from the TIMES and the FINANCIAL NEWS the Government's staunchest supporter and most ardent critic is however of interest. The point made by the FINANCIAL NEWS that taxation high as it is will not be sufficient to curb consumption to the levels necessary to avoid inflation and the TIMES point with regard to the fundamental problem of the borrowing program are constructive contributions to the budget discussions.

CSB

KENNEDY

RECEIVED
SEP 28 1956
DIRECTOR, INTELLIGENCE
COMMUNICATIONS CENTER
WASHINGTON, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 28, 1939

TO Secretary Morgenthau

FROM Mr. Burgess

Memorandum

I had lunch today with several members of the Federal Reserve Board and Staff. We discussed possible Treasury new financing and they approved the plan we discussed this morning.

They also said they saw no objection to the H.O.L.C. purchasing some of the 1-1/2 per cent bonds of 1945-47 from time to time in the market while it was below par.

I reported to them with respect to the reference to the Federal Reserve policy in the Secretary's press conference last week and today, and they were quite satisfied. They particularly liked what appeared on the ticker this morning.

I also reported our discussion of the mechanism of reporting Treasury purchases for its various accounts, and they agreed that no change in procedure was desirable at this time.

We covered a lot of other territory of less immediate consequence.

WLB

September 28, 1939
10:58 a.m.

132

HMJr: Hello.

Operator: Congressman Rayburn.

HMJr: Hello.

Sam
Rayburn: Yes?

HMJr: Sam?

R: Yes, Henry.

HMJr: Did they tell you I -- we got that fellow taken care
of?

R: Yeah. I called the General yesterday and asked him
if it was over there and he said the President had
just signed it and that's fine.

HMJr: Well, I just.....

R: I told the folks up here and they're very elated about
it. They like the old fellow.

HMJr: Well.....

R: Well that's fine. Thank you, Henry.

HMJr: Okey-doke.

September 28, 1939
11:58 a.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello. Hello. Hello.

O: He was on there.

Outside
Operator: Just a moment.

HMJr: Hello. Hello.

Outside
Operator: Just a moment; I'm trying to get him.

HMJr: Shall I hang up?

O: Yes, hang up; I'll ring you back.

11:59 a.m.

HMJr: Hello.

Operator: Chairman Eccles. Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Marriner.....

E: Good morning, Henry.

HMJr: Good morning. Thank you for that very lovely letter
which I.....

E: Well, I -- that letter happened to be dictated when --
before I talked to you on the phone so I just let
it go.

HMJr: Thank you so much. Now, Marriner, Duffield told you
about my press conference.

- 2 -

E: Yes, he did and I told him that I was very much pleased the way you.....

HMJr: Well.....

E: -- the way the thing was handled.

HMJr: I.....

E: And the vigor in which you.....

HMJr: I gave them plenty!

E: Well, somebody needs it.

HMJr: Now -- well I told them there wasn't a scintilla of truth to this -- to the article, to the statement. I can't go any further than that.

E: That's right.

HMJr: Now the other thing is this: If the market continues the way it is, then I'd like to meet with your executive committee.....

E: Yes.

HMJr:either Monday or Tuesday.

E: Um-hm.

HMJr: And I thought you might be thinking about it.

E: Um-hm.

HMJr: To discuss the refunding of these December notes.

E: Um-hm. Well that's -- either -- either day would suit me and I'm -- I'll -- you.....

HMJr: Well, this is what -- this is what we were thinking about. If things continue as good as they are, we'd like to announce it in the papers Wednesday morning.

E: Yeah.

- 3 -

HMJr: And then have it run say Wednesday, Thursday and Friday. It would be kind of close.

E: Um-hm.

HMJr: So -- ah -- how about Tuesday morning around eleven o'clock?

E: Tuesday will be fine for me and I'll go ahead and call a meeting for that time.

HMJr: I think so.

E: Subject to cancellation in case the market -- ah.....

HMJr:changes.

E:changes to where we felt -- feel it should be -- action should be delayed.

HMJr: That's right.

E: The -- personally, I -- unless -- unless there's something happens in the foreign news of a very disturbing nature I -- I don't -- I think that the -- that the worst is over for the time being in this market.

HMJr: Well we could do five years now at one and a quarter one and three-eighths.

E: Yes. Yes, I don't think there'd be a bit of trouble.....

HMJr:

E: irrespective of what -- you see, we haven't been in the bond market in any -- I mean in the note market in any case.

HMJr: I know.

E: The only -- only time we were in the note market was just the first day or two and since that time the -- our operations have been confined entirely to the long bonds because that's where the weakness was.

HMJr: Right.

- 4 -

E: And -- and so that there has been -- there has been no interference with the note market all -- all during the last two weeks and the note market has -- has pretty well stood on its own feet and around those levels.

HMJr: That's right. Well I -- now I've got another matter and this -- I'd like to talk to you first as an individual, then if you think you should pass it along to the Board why you can. See?

E: Yeah.

HMJr: There's an all -- it will take me a minute to explain. There's been all kinds of maneuvering around this town by various people who would like to represent the French and the British in their purchasing. And the President and myself have told the French and the British that we'd like to have them form a corporation like the Amtorg for the Russians or the Universal Corporation for the Chinese, which is -- and do their own buying.

E: Um-hm.

HMJr: No commissions, and do it directly. What these -- for instance the Chinese do, we don't advertise it -- when they get bids for -- for a thousand trucks they bring those bids over to the Procurement Division of the Treasury and we let them know whether they are getting a good price or not, you see?

E: Um-hm.

HMJr: And we've told the British and the French we'll be glad to do the same for them. Now, Mr. Aldrich came down to see the President and wanted to know couldn't the Chase represent the British and the President said, "I thought you were a bank; I didn't know that you were a merchant." Now -- which leads me up to this point: During the war the United States Treasury asked the Federal Reserve as its fiscal agent in New York to open an account for -- well, I know of one case, reparations commission, and I understand it was done a number of times. The reason that we want to do it this way, we found, for instance, some months ago when we wanted to get a copy of the forms of how the British were buying the planes for the French,

we were told informally by the Fed. of New York that it would be embarrassing to give it because they were acting as the agents for the Bank of England.

We've asked them, if you do this as our fiscal agent, we want it distinctly understood that anything that the United States Government wants to know about this account - in other words, what the French and British are doing - is available to us. You see?

E: Um-Hm.

HMJr: In other words, what we're trying to do is, so that if -- let's say the French or British will rush in and buy a lot of one kind of material and it's in competition with something the Army and Navy wants, we want to know it so that somebody from the Government can tell them informally, "Please lay off."

E: Well if they organize that separate corporation like has been suggested and they check the -- the purchases with the Procurement Division, it seems to me that the Government could -- could ask the British or the French certainly to keep us advised as to what their purchases are to avoid that competition.

HMJr: Right. Well just to have a double check, if they have a -- the account with the Fed. in New York, you see.....

E: Yes.

HMJr:then we know how much money is there and we know how it's going out and all the rest.

E: Of course the way I've looked at.....

HMJr: But I wanted to explain it to you why we were doing it in what might seem a little bit out of the ordinary and.....

E: Now let me understand, you -- what -- what -- what you're doing, you're asking the British and the French.....

HMJr: No, I'm just going to suggest it.

E: Yeah, you're going to suggest to the British and the French that they open this special account.....

HMJr: Yeah.

E:at the Fed.....

HMJr: Yeah.

E: But what name would it be in?

HMJr: Well, I don't know -- it would be in the name of the British Government.

E: Yeah.

HMJr: The British Treasury.

E: And that account would be their purchase account.

HMJr: That's right.

E: It would be at no private bank.

HMJr: That's right.

E: And the -- the information with reference to their purchases, would you want that without their consent?

HMJr: No, we would tell them beforehand that -- and I've explained that to George Harrison.

E: Yes.

HMJr: That having the account there that account is -- it's -- is an open account as far as the U.S. Treasury is concerned.

E: Yes. Well, it should be.

HMJr: No, but the Fed. considers that if it's -- unless they're acting as our fiscal agent that it is not the information under any -- is not available to us.

E: Well but it's -- but if the -- if the British and the French Government.....

- 7 -

HMJr: Yeah.

E:are willing to make it available.....

HMJr: That's right.

E:then Fed. -- then Fed. certainly don't object to making it available.

HMJr: No, no. They -- and --and Harrison is perfectly satisfied if they do it this way.

E: Well I would -- I would personally see not the -- for instance, if George -- if George is satisfied.....

HMJr: That's right.

E: He's the -- he's the difficult one.

HMJr: No, he's entirely satisfied. He's had twenty-four hours to think it over and I gave him plenty of time and he called me (line noises) -- hello?

E: Hello?

HMJr: He called me back; he said it's all right as long as you write me a formal letter asking me to do this.

E: Yes.

HMJr: I said, "Well, I'm not going to ask you formally to do it until the British come and ask me formally."

E: Yes.

HMJr: You see?

E: Yes.

HMJr: Now, we're not saying to the British, "You've got to do it this way." We're saying, "This is a privilege which we're offering to you."

E: And of course you won't have to say, "You have to." They'll -- they'll accept the suggestion.

HMJr: But you see, with all this thing -- with all these J.P. Morgan, and Chase, and all of these people

scrambling, this means that these people are going to get a square deal and we're going to know what they're doing.

- E: Well, I -- I, personally, think that -- that -- that if there's any question about this that I -- I think that -- that this Government would be very derelict to permit this -- to permit the matter to be handled any other way.
- HMJr: Fine.
- E: I can't imagine any other foreign government in our position.....
- HMJr: No.
- E:letting private financial people get in on -- on matters of such public -- such a public nature and of such a -- a matter of great public interest.
- HMJr: But that wasn't so under the Woodrow Wilson.
- E: No, that wasn't, but we should have -- we should profit by the mistakes.
- HMJr: Well, that's what we're trying to do.
- E: Now on -- there's -- does this thing that I have had in mind for a long while if we ever got legislation, and that is that this -- that the Board here should have the power to require that all foreign Governments and all foreign central banks - see - doing business in this country must do as -- we could require that they do all of their business through the Fed. See?
- HMJr: Yeah.
- E: Now, we've been up against -- you take the Russian Government here had.....
- HMJr: Could -- could I discuss that at -- at greater length with you sometime?
- E: Yes, yes. I.....
- HMJr: I -- I just wanted.....

E: This is -- this -- this suggestion of yours is -- is just along that idea.

HMJr: Now may I just -- do you feel that you should pass this along to your Board?

E: Well, I don't think it makes a great deal of difference. I would -- if you had -- saw no objection to it, I would like to pass it on to them.

HMJr: O. K.

E: Just -- I'd like them to feel that they're in on these things. They hear them on the outside and it's -- it always helps me in my relationships.

HMJr: All right.

E: So if you see no objection to it -- I don't have to do it.

HMJr: No, no, I have no objection.

E: Well then I'll pass it on.

HMJr: All right.

E: All right, then.

HMJr: Thank you.

E: Goodbye.

September 28, 1939
3:55 p.m.

George
Harrison: Hello, Henry.

HMJr: Yes.

H: This is George Harrison.

HMJr: Hello, George.

H: Henry, I hate to bother you but Bob Stevens has got a swell idea that I think you would eat up.

HMJr: Yes.

H: And he wrote you hoping that you might be able to see him. I rather think time is important.

HMJr: Yeah.

H: And I was wondering whether you could see him. I'll give you a hint just what it's about.

HMJr: Will you do that?

H: There's such a shortage in wool.....

HMJr: Yes.

H:today because of the fact that the British commandeered a million -- billion pounds of wool from the --

HMJr: Australia.

H:Australia and New Zealand.....

HMJr: Yes.

H:that the price of wool has gone up sky-high and you can't get it at all. Our clip is not big enough to take care of it.

HMJr: That's right.

H: As a result the Navy tried to get seventy-five thousand yards of over-coating made.

HMJr: Yes.

H: The only bid they could get was one bid for twenty-five thousand yards out of seventy-five, and that was at an extraordinarily high and unjustified price.

HMJr: Yes.

H: The Canadians have tried to get a bid on five hundred thousand blankets -- wool blankets. They can't even get bids for more than a hundred thousand because there's not enough wool.

HMJr: Yes.

H: Now, Bob thinks that you ought to be able to make a deal with the British.....

HMJr: Yes.

H:to take the hundred million pounds of wool off their hands.....

HMJr: Yes.

H:for a million bales of cotton.

HMJr: Oh!

H: Which they will need within the year. He's got all the figures, and that you would make a huge profit because you would bring it in duty-free and then you could add it to that price to sell - or if the Government is in the business of building up their supplies of blankets or overcoats for the Army and Navy, then you could give the wool to the manufacturers.....

HMJr: Yes.

H:to manufacture just for the cost of manufacturing,

HMJr: That's right. I tell you what you do, you tell him to come in and see me at 10:30 Monday morning.

H: 10:30 Monday?

HMJr: Right.

H: That -- that's swell, because he's got and I don't see any hitch about it and he thinks you'll be interested. And he hasn't said a word to another soul.

HMJr: Right.

H: So that you can bring it up your own way.

HMJr: O. K.

H: First-rate.

HMJr: Thank you, George.

H: And Henry, one more thing.

HMJr: Yes.

H: While I know you didn't give me a chance or ask me for my views as to the wisdom of the Treasury asking us to do that job you mentioned the other day.....

HMJr: Yes.

H:I hope that before you should ask us you will let me tell you that because I think it's full of real holes.

HMJr: I see. Well.....

H: I just want you to know that.

HMJr: Well when are you coming down?

H: Well I'm.....

HMJr: When are you coming down?

H: I've got tickets going down tonight.

HMJr: Yes.

H: Because I've got to go -- Norman Davis sent a hurry call for me to come down there on some Red Cross thing.

- 4 -

HMJr: Well I'm not coming to the Treasury tomorrow.

H: Oh.

HMJr: And I'm not making any more dates until Monday now.

H: I see.

HMJr: So.....

R: Well, I'll probably be back next week anyway and I hope you won't do anything with it before then.

HMJr: You know I have catarrhal jaundice, don't you?

H: No, I didn't.

HMJr: Yes.

H: Oh my gosh!

HMJr: Yeah.

H: Oh, I'm so sorry.

HMJr: Yeah, and I -- I'm trying to do my job and keep my head above water.

H: Yeah. Well that means if you're away you probably won't ask him to do this other thing before I see you anyway.

HMJr: I wouldn't guarantee it.

H: Uh-huh.

HMJr: But I -- I'll try to hold it off until I get a chance to talk to you.

H: Yes. But I -- I'm just thinking of it from the.....

HMJr: Why don't you sit down and write me a letter about it?

H: Well I tell you, could I do this - could I talk to Earle?

HMJr: Earle won't be here tomorrow.

H: Oh, I see.
HMJr: Talk to Walter Stewart.
H: All right, I'll do that.
HMJr: Talk to Walter Stewart.
H: All right, I'll do that.
HMJr: Righto.
H: Yes, sir.

September 28, 1939
4:07 p.m.

HMJr: Hello.

Jerome
Frank: Hello. How are you feeling?

HMJr: Ah -- I have no itch yet.

F: (Laughs) Well, is it getting better?

HMJr: Yeah, I think -- I think I'm going to fool them.

F: That's good. I hope you do. Say I just -- confidentially I want to tell you about something.

HMJr: Go ahead.

F: In connection with the presentation of data by the SEC to the TNEC on investment banking.....

HMJr: Yeah.

F:our boys are getting information from various investment bankers and included in their list was Earle Bailie.

HMJr: Yeah.

F: One of the boys went to see him the other day.....

HMJr: Yeah.

F:and he felt that it might be embarrassing to him under the circumstances.

HMJr: Embarrassing to.....

F: But I don't see how -- how we can very well avoid asking him for the data which is rounding out a whole story involving a half a dozen investment bankers.

HMJr: Well he spoke to me about it, you see, and I said the only thing I could advise him was that if the SEC wanted to see any letters, show them to them. And I understand he did.

F: I see. Well I didn't know; I just wanted you to know about it.

- 2 -

HMJr: No, he asked me and I said, "Well Earle, there's only one thing to do. I don't -- now that you're in the Treasury at the large sum of a dollar a year, if this man representing the SEC wants to see letters, show him."

F: Yes.

HMJr: And he was in here today and he told me he did show them.

F: I see. Well I -- I didn't know that he had been in as yet and I wanted you to know about it.

HMJr: Yes. Well I advised him to show him the letter that you wanted.

F: Very good. Well.....

HMJr: And -- and he's done it.

F: Yes. All right.

HMJr: I -- I -- and he -- I want to say for Earle that he unhesitatingly took my advice.

F: Yes. Well I just didn't want you -- I want you to understand this had -- this has a long history -- coming down here -- I mean, the investigation began months ago.

HMJr: Right. Well I didn't see what else he.....

F: I didn't -- and I don't see what else I could do either.

HMJr: No.

F: All right, thank you.

HMJr: I appreciate your calling me.

F: All right, sir.

HMJr: Thank you.

September 28, 1939

MR. KNOKE:

Please telephone the following message to Mr. De Jong of The Netherlands Bank:

"In checking through our records, we note that our cablegram of September 26, 1938 authorized you at that time to earmark gold for our account up to \$25,000,000. Even in the circumstances then obtaining you made slight use of this authorization. In the present changed circumstances you have followed the practice of releasing gold from your earmarked account with us when you required dollars. We assume, therefore, that in the present state of affairs the authorization of September 26, 1938 has lapsed. We desire of course to cooperate with you as always but we desire to confirm the understanding that neither Bank shall sell gold to and earmark it for the benefit of the other party without prior consultation and agreement."

If Mr. De Jong indicates agreement to the foregoing, then confirmatory cables should be exchanged.




(Read to Mr. Knoke, 3:40 P.M. Sept. 28. He agreed entirely and would endeavor to telephone it tonight.

H.M.C.)

Approved by: EB:EB:WS:MC

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE  Sept. 28, 1939.

TO Secretary Morgenthau
FROM Mr. Haag 

Attached is a report which I gave Mr. Hanes last evening on the meeting on railway equipment held in his office yesterday.

TREASURY DEPARTMENT

151

INTER OFFICE COMMUNICATION

DATE Sept. 27, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *MA*

Subject: Meeting on Railway Equipment, held in Mr. Hanes' office, Wednesday, September 27, 1939, at 10:30 A.M.

Present: Mr. Hanes; Mr. John J. Pelley, President, Association of American Railroads; Mr. W. C. Kendall, Chief, Car Service Division, Association of American Railroads; Mr. Haas.

Mr. Hanes opened the discussion, explaining that the occasion for this meeting was the Secretary's continued interest in the railway equipment problem, recalling that last May the Secretary asked Mr. Gray and Mr. Willard to give him a report on the railway equipment needs of the railroads. Mr. Pelley of course recalled the report and said that he had assisted in its preparation, stating that Mr. Gray and Mr. Willard estimated that the cars in good order at that time were sufficient to take care of a 25 percent increase in traffic and that if the cars in bad order were put in good order there would be sufficient cars to take care of a 45 percent increase in traffic. He added that later the Executive Committee of the Association of American Railroads met and raised the 45 percent estimate to 50 percent. Mr. Pelley went on to say that carloadings in May were 593,000 per week and that last week's carloadings amounted to 806,000, which is about a 35 percent increase. This, he said, substantiates the estimate furnished the Secretary by Mr. Gray and Mr. Willard, as the roads are now actually carrying about 35 percent more traffic than in May of this year when their report was submitted.

Mr. Pelley further said that the new car orders placed to date this year amount to 47,000 cars and that 21,000 of these were ordered before Hitler invaded Poland, the remainder having come in since then. Mr. Pelley felt confident that the railroads could meet any situation which the European War or even America entering the war might throw upon them. He stated that all bad order cars are now being repaired so as to put them in good order condition. He pointed out that last week's carloadings were 806,000 cars. This, he indicated, is close to the war level reached in 1918 of 44 million cars for the year. Mr. Hanes asked him if that was the high figure reached, and Mr. Pelley said that in 1929 carloadings amounted to 52 million cars.

Mr. Pelley explained that the railroads now are better organized and are much better prepared to meet an emergency situation than they were in the last war. In the World War, he pointed out, many equipment difficulties were the result of loading more cars than could be unloaded. He said that the Government goods were given right-of-way over all other traffic and in many instances, such as at Camp Knox and Hog Island, hundreds of carloads of material arrived before any unloading facilities were available, which resulted in tying up for extended periods a large number of freight cars. He said he was confident that under the present organization of the railroads and the plans which they have worked out with the War Department that such a situation would not occur again.

Mr. Pelley said he had canvassed almost every conceivable possibility in order to insure adequate railroad facilities in case of an emergency. He said he had consulted the British and the French diplomatic officials here and that he had asked them who would be in charge of their purchasing, stating that he wished to get in touch with the agents to work out any traffic problems that might arise. He was informed, however, that no purchasing agent or agents had been appointed. He said he also endeavored to get from the British and French diplomatic representatives some idea as to the amount of orders which might be expected to come from these two countries and when such orders might come in. He received no definite information and concluded that nobody really knew as so much depends on how the war develops.

Mr. Pelley told Mr. Hanes that the railroads have a very efficient organization in Washington, composed of outstanding railroad men, and that they are always pleased to be of service to the Government on any problem relating to the railroads.

Mr. Pelley pointed out that the meeting of the Shippers' Advisory Board of the Atlantic States Region will be held in Newark, N. J. on October 4 and 5, but that it is merely one of their routine quarterly meetings. He said that when traffic was heavier the Advisory Board met once a month. The purpose of the meetings, he said, was to have the shippers come together and pool their information so as to estimate the probable near-term traffic requirements for the various regions. He said they would be very glad to have someone from the Treasury Department attend the Newark meeting, pointing out that these meetings in any case are open to the public. Mr. Pelley stated that the Regional Shippers' Advisory Boards were organized in 1922. In a report explaining the work of these boards, which Mr. Kendall left with me, the first paragraph gives briefly the reasons for their organization, and is as follows:

"The Regional Shippers' Advisory Boards are organizations of shippers and receivers of freight designed to afford opportunity for informal discussion and settlement of the common problems of the railroads and their patrons. They had their genesis in the necessity of the railroads for more accurate and dependable information concerning transportation demands. Amount of equipment and its distribution throughout the country to meet shippers' needs is dependent upon advance information as to prospective traffic movement. The shipper has more knowledge of his anticipated requirements than anyone else. Prior to the organization of the Boards he had no medium by which to transmit in any organized, collective manner such knowledge, nor did the railroads have the facilities for accumulating it. The result was a dislocation of facilities, a congestion in one section with a consequent shortage in another. This led not only to a serious impairment of service but engendered misunderstanding, general complaint and much bitterness."

The meeting to take place in Newark is a meeting of one of the 13 regional boards which cover the entire United States. The total membership of all the boards amounts to about 16,000.

9-28-39

154

File this with that letter I sent up
the other day from George Harrison.
I have talked with the Secretary and
he knows all about it; so it is just to
be filed.

So far as I am concerned, this record
of the conversations can be destroyed.

Reviewed on 9-28-39
in presence
of W.C.
2 phone ⁹⁻¹⁴ conversations which
have had taken to R.B.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 28, 1939.

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

Dear Mr. Secretary:

The Board of Governors has received from President Harrison, of the Federal Reserve Bank of New York, under cover of his letter of September 22, a copy of a report from Mr. Knoke relating to the handling of certain information on Thursday, September 14, 1939, concerning the official British buying rate for sterling. Mr. Harrison stated that he was sending this report to you with a similar covering letter.

*filed that
date in
 diary*

Vice Chairman Ransom has reported to the Board his conversation of this date with Mr. Bailie of your Department. The Board understands from this conversation that President Harrison has furnished the information you desired and that you feel that there is no need for further action in regard to this matter.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

GROUP MEETING

September 28, 1939.
11:00 a.m.

Present: Mr. Hanes
Mr. Stewart
Mr. Graves
Mr. Gaston
Mr. Bell
Mr. Thompson
Mr. Riefler
Mr. Burgess
Mr. Duffield
Mr. Harris
Mr. Viner
Mr. Bailie
Mr. Cochran
Mrs Klots

H.M.Jr: Suppose we start on the left today. Thompson?
I called up Rayburn. He had already heard
about it. General Watson beat me to it.

Mr. Bell?

Bell: There is some evidence of a little increase in
the withdrawals of the Postal Savings. We
haven't gotten enough information yet. It looks
as though they might take out about \$4,000,000
this month over and above deposits. Savings bonds
have shown no....

H.M.Jr: Is it about one billion two?

Bell: One billion two seventy at the present time.
That hasn't varied materially in the last year.
Savings bonds have shown no material increase;
a little, but not enough to get alarmed about.

I assume you have noticed that the collections
of income taxes in the month of September are
exceeding our estimates, probably about as much
as 20 million.

H.M.Jr: I did. I didn't want to say anything but I
thought at the right time we would get it out.

Duffield: I wanted to ask you about that, Mr. Secretary.
Did you establish a policy at one time of saying
nothing about the quarterly collections?

H.M.Jr: That is right. The policy was established just
to be broken.

Bell: There might be some back taxes in there. It doesn't mean anything in the way of business. The base was established in March.

(Mr. Hanes, Mr. Bailie, Mr. Cochran and Mr. Viner enter the conference)

H.M.Jr: What is this, a rump meeting?

Hanes: Yes, we had a small meeting.

H.M.Jr: Small rump. This is the big rump.

Where were we when Jake Viner dropped in?

Bell: Right here.

H.M.Jr: I see. All right.

Bell: There have been two resolutions introduced in the House by Ham Fish. I don't know whether they have been called to your attention or not. One is directing the Secretary to transmit to the House of Representatives all facts and figures showing extension of credits to aid in financing or to facilitate exports and supplies to foreign belligerents.

The other is to direct the Export-Import Bank to give information. I suppose something ought to be done about them.

H.M.Jr: Has this resolution passed?

Foley: No, it was just taken up. As long as they are not going to take any action on anything except neutrality at this special session, I don't think we have got anything to get excited about.

Bell: There is a drive in the House, is there not, to take some action?

Foley: We are watching it, but I don't think there is anything we have to do right now.

Hanes: There are also a number of resolutions introduced by Voorhis, amongst others. There were a number

- 3 -

of resolutions proposed for levying various kinds of taxes. One was introduced, H.R. 7545, by Voorhis, from California, yesterday. He introduced about four, I guess, bills yesterday. This one is to levy a tax of 80 percent on net profits in excess of the average net profit realized in 24 months preceding.

H.M.Jr: It wouldn't hurt me a bit.

Hanes: It hurts me a little bit because it is interrupting our program. We are going to be prepared for it when it arises.

Bell: That is all.

Graves: I have kept Captain Collins' memorandum on coal (handing memorandum to Secretary).

It isn't a complete story. There is some information he has got to take some time to get. On the whole, he says the situation is in good shape.

H.M.Jr: Anything else?

Graves: No.

H.M.Jr: No insurmountable resistances?

Graves: No, no resistance at all.

H.M.Jr: Taking all objectives?

Graves: There are some very great difficulties, though.

H.M.Jr: But not resistance?

Graves: No resistance.

H.M.Jr: Harry?

White: Nothing.

Duffield: Mr. Eccles hasn't come to his office yet this morning.

H.M.Jr: Have you left word?

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Duffield: Yes.

H.M.Jr: They will send for you?

Duffield: Yes.

H.M.Jr: Did you try to get him at his home?

Duffield: No, I didn't. They thought he was somewhere in between.

H.M.Jr: But they will send for you?

Duffield: Yes.

H.M.Jr: At my press conference the boys went after me very hard as to these differences between the Federal Reserve Board and myself, so I interrupted them and told them that there are no personal differences between Mr. Eccles and myself and that any stories that were printed that we have had any fights or anything like that, that there isn't a bit of truth to them, and they saw this letter here and I said, "Yes, I got a very beautiful letter from Mr. Eccles." I told Mr. Eccles yesterday and he wrote me today and I would just like to take a minute to read this letter.

"While I suppose it is futile to hope that either of us will be fairly represented in the Washington gossip columns, I cannot let yesterday's sample in the Kintner-Alsoop column go by without letting you know that it was particularly painful to me, as it must be to you."

"This is all the more true at a time like the present when we are all pulling together to the best of our ability. As you know and as I have long since emphasized, I

- 4(a)-

want to cooperate always with you as long as I am here. That does not mean that we are always going to see eye to eye and I have never imagined for a moment that you wanted anything other than my honest opinion from time to time, whether it happened to be the same as your own or not.

"Certainly this cannot be fairly represented as meaning there is a clash between us, as this most unfortunate column tries to make it appear. I am additionally upset by it because it attempts to represent me as favoring open-market operations in the interests of easy money which, as you know, is perfectly ridiculous.

"Had you been at the office, I would have called you, but I am taking this occasion also to let you know that I am sorry you have been indisposed and hope that you will be back on deck at the earliest possible moment consistent with your own good health."

They have crowded me terribly hard on the fact that I didn't want the Federal Reserve to go back in the market on Thursday. I said, "I am very sorry, you are talking about a Federal Reserve policy and you will have to talk to them." Whereupon, Gregory of the Tribune came back and said, "Well, an Executive of the Treasury told us that," so I said, "Well, no newspaper man has talked to me about this thing and I want to know -" so I said, "I am not contradicting any story because nobody has interviewed me," and I said to Gene Duffield, "Have you given anybody any impression that I wanted anybody in or out of the market?" He said, "No," and they said, "Well, somebody told us," so I said, "Well, I can't help that. Just as long as I don't tell it to you, and if you want to know anything about the Federal Reserve open market policy, please go and see the Board and Mr. Elliott Thurston." Thereupon, for some reason or other, they all giggled. I don't know what the significance was, but they were a little ugly. But I just stuck by my guns and refused to get drawn into discussing the Federal Reserve policy, because I didn't want anybody to even say I slipped that much.

If anybody wants to read the stenographic notes, they are available, but I certainly hit the Eccles-Morgenthau thing terribly hard and if anybody doesn't like it, I can't help it.

Gene?

- Duffield: There is this man here....
- H.M.Jr: Have I accounted that correct?
- Duffield: That is right.
- H.M.Jr: Did I quote correctly?
- Duffield: You further made the statement on the record that as of today you were satisfied with the coordination between the Board and the Treasury.
- H.M.Jr: I said, "As of today."

- 6 -

Mr. Harris?

Harris: I am sorry I couldn't have those figures for you on time. I have got most of them now. They are not quite complete.

H.M.Jr: Were you through?

Duffield: There is this man here from California by the name of Groves and you sent his letter to me yesterday. He had seen all of those people, the President, the Vice President and the rest of those people. He wants to see you and he would like to see Mr. Hanes.

H.M.Jr: I can't....

Duffield: I told him you were under pressure these days.

H.M.Jr: I am not only under pressure, but I am way below par now. I don't know how Mr. Hanes is fixed. I don't know who Mr. Groves is.

Hanes: He is a professional lecturer.

Duffield: He seems to be a friend of Jim Farley's and I think Jim has gotten him entrees to these different places.

Hanes: I told Rademacher I would be glad to see him any time he comes in.

H.M.Jr: That would help me.

Duffield: I just didn't know whether you didn't want to see him or not. That is all.

H.M.Jr: I was going to get off a pun, but I will let it go.

White: That one yesterday was better.

H.M.Jr: This was no worse.

Haas: The Budget Bureau has asked for a revised estimate based upon the new situation which has developed. We are taking it up with Mr. Hanes today but I

- 7 -

thought before you make any statement about whether income tax is running above, that you might want to make your decision on these new revisions first. They have also asked you for a tentative estimate for the fiscal year 1941. We will have to get out our big crystals for that. We are working on that one now.

Bell: That is unusual.

Haas: I thought you might want to see this (handing paper to Secretary).

H.M.Jr: You showed me that once before.

Haas: No, I showed you this one (indicating).

H.M.Jr: This outstartled the other one.

Haas: That is right.

Burgess: The Government market is better and all is quiet on the Rialto.

H.M.Jr: Wait a minute, is that what you call Wall Street? I have heard it called lots of things but I have never heard it called Rialto.

Hanes: I thought he was referring to the Federal Reserve Board.

Burgess: That is a blanket proposition. All is well.

H.M.Jr: You fellows who are helping me on the Government bond market, under no circumstances will I announce Saturday for Monday.

Burgess: We would like to discuss that with you.

H.M.Jr: No.

Burgess: It doesn't involve any more hours than the other way.

H.M.Jr: The only fellows that are worried are the machine boys. You are going to date the thing the 15th of September, aren't you?

Burgess: That is right.

H.M.Jr: Why can't you do it on Monday?

Burgess: Dating doesn't making any difference, but it doesn't take any more hours over the week-end. You don't expose yourself any more than if you did it the middle of the week.

H.M.Jr: Supposing I did it on a Monday or a Tuesday morning.

Burgess: Then you have got to make your decision on Sunday.

H.M.Jr: No, sir.

Bell: You have got to make your decision at the close of business and announce it the second day from that. You have got to give the machine one day in between.

Baillie: Didn't we once do it without that one day in between?

H.M.Jr: Listen, let's take a look at that machine.

Bell: It is a question of whether you want more than just the newspaper announcement. We have always contended that the banks ought to be notified by letter.

H.M.Jr: Fifteen thousand telegrams all go out from here direct to the banks. We had that once.

Bell: On a different matter.

Baillie: That was what I thought I remembered.

Bell: I don't believe on our finances. We have got a circular here that is four pages long. You are not going to telegraph that to fifteen thousand banks.

H.M.Jr: If you people can't find a way, I will be glad to show you.

Burgess: There is a lot in "business as usual."

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H.M.Jr: I would like to sit down and take a look at the Monday morning papers and about Monday noon make up my mind, the stuff all being in the hands of the banks, everything ready and printed and everything so we can shoot as of Monday noon.

Bell: You are going to leave it open three days anyhow. You might consider the first day as a mailing day. You could get it into the hands of the banks by the second day.

H.M.Jr: Danny Bell is beginning to go to work. What did they call you, the greatest statistician or something?

Bell: I don't think so. There was a semicolon in the wrong place so I was a member of the Federal Reserve Board.

H.M.Jr: Anyway, whatever you are, you are getting to work. Monday noon.

Bell: We can do that.

H.M.Jr: Thank you.

Isn't it wonderful? I am going to keep this jaundice. You have got to treat me very gently.

Hanes: They don't argue so hard against you.

Burgess: I am saving it up.

H.M.Jr: Burgess looks a little yellow to me.

Burgess: I haven't given in yet.

H.M.Jr: I am very weak, Randolph. Well, you have got my ideas anyway.

Burgess: That is right.

H.M.Jr: If he is in town, I would like to personally see Pinsent and I would also like to see the Frenchman.

- 10 -

- Cochran: The Frenchman is coming in this afternoon at a quarter to 3:00.
- H.M.Jr: I don't think they would like to have me see them together.
- Cochran: We haven't had them here together.
- H.M.Jr: Suppose we see Leroy-Beaulieu at a quarter to 3:00 and Pinsent at 3:00.
- Cochran: Very well. This is Thursday. I believe he is in New York meeting this Colonel Greenley today.
- H.M.Jr: If not, I have just got a clearance from the President saying it is agreeable to him to have us ask the Federal Reserve to open up accounts with these people.
- Cochran: I will bring Leroy-Beaulieu in at a quarter to 3:00.
- H.M.Jr: Or any other person, anybody else who wants to open an account.
- Cochran: That is anybody else from the British?
- H.M.Jr: No, we will open an account for the Italians, Germans, Poles, or anybody.
- Cochran: If Pinsent is absent, should I get Opie in?
- H.M.Jr: Yes, I should like to meet Jake Viner's students.
- Viner: Not students, friends.
- Bell: You wanted to talk to the three "E's" before you saw them on that account business. I am not one of the three "E's". I said I thought you wanted to talk to them.
- H.M.Jr: They will have to move fast. This is simply saying to any country, if they wish to open an account in Federal Reserve Banks, the Treasury will ask the Federal Reserve, as our fiscal agent, to do so.

- 11 -

- Bell: I think also that the lawyers should look into the question of whether you have a right to ask them to do that as fiscal agents.
- Hanes: We have done that before, Danny, in the case of Parker Gilbert and the reparations. We did it in that particular case.
- H.M.Jr: And I asked George Harrison and they have done it in a number of other cases, and he is satisfied.
- Bell: We did it during the war.
- H.M.Jr: George Harrison was satisfied.
- Hanes: We did it for Parker Gilbert after the war. That was for the reparations committee.
- H.M.Jr: The only thing George says, "Is it all right if I charge them a little expenses?" I said, "It is O. K., George."
- Bell: It is all right if he cuts down on the Treasury an equivalent amount.
- H.M.Jr: I took care of that.
- Well, between now and a quarter to 3:00 if anybody wants to throw up any red flags, let them tell Merle Cochran. Otherwise, we will give them the privilege of doing this if they wish, with the understanding that I have with George Harrison. The understanding that the United States Treasury is to have access to all the figures at any time, which the Federal doesn't feel is right when it is their own account.
- Baillie: That is right.
- H.M.Jr: And after all, that is the whole purpose.
- Baillie: Mr. Hanes and several of us have been having talks with the State Department, going over a good many hours. You were brought up to date yesterday afternoon as to what had happened as far as Mr. Welles' first message was concerned

- 12 -

where he asked to be able to present what we call a short cut VIS plan. I think the State Department is now glad to go along with Mr. Jones and with our views that specific suggestions of that sort should be kept out of the resolutions and that the change which was a very good one and suggested by the three "E's" of asking the new committee of five to report to the Undersecretary's Guatemalan conference, would make them feel that there was more reality in it, and I believe that is satisfactory.

Now, no sooner had that ghost been laid than two others arose to take its place, because Mr. Welles then sent a further message in which he raised the question of whether it would be possible for him to let the Colombians and Peruvians send representatives up here to discuss their needs. On that subject I think, Mr. Hanes, we really ought to have a little more time together, don't you, before we talk to the Secretary.

Hanes: Yes, but I think it is important we do something right away.

Baillie: Could a group of us have a few minutes with you sometime after this meeting?

H.M.Jr: Well, could I ask this, that you fellows get together first, and when you are together - in the forepart of the afternoon I would be glad to see you. Would that be time enough for Mr. Welles? I would like to have you come in and say, "Well -" I take it you are not together now.

Hanes: We haven't had time.

Baillie: We are together but we don't know how to express ourselves.

H.M.Jr: I will say now, 3:15. That will be my last appointment today.

Baillie: Cochran, do you think that is all right with them?

Cochran: The only thing is Livesey phoned me this morning that they wanted to have a meeting with Mr. Hull and are waiting for our reply.

Baillie: And the answer is that the Secretary can see us at 3:15.

H.M.Jr: I can't move any faster. If I asked you gentlemen now, I take it you are not ready now. I read in the paper that Mr. Welles announced that we are going to lend two million dollars to these countries. It is right in the paper.

Baillie: It is a very unhappy situation and we have discussed it with Mr. Jones and he is not happy about that.

H.M.Jr: But I have just read it in the paper.

Baillie: That is what we want to talk to you about.

H.M.Jr: I can't do it any quicker and you people aren't ready anyway, are you, John?

Hanes: No, we are not ready now. I think we could get ready in the course of three quarters of an hour.

H.M.Jr: Well, I am going to rest from 12:00 to 1:00. We have got this luncheon.

Hanes: Oh, yes.

H.M.Jr: Anything else, Earle?

Baillie: No.

Foley: I have a memorandum for you.

H.M.Jr: Will you give it to Mrs. Klotz?

Foley: Yes.

H.M.Jr: I will take it home.

Gaston: You asked me whether this particular bit of information about the boats off the Florida Coast had been transferred to the Naval Intelligence. I called Polio and he said that the message was on the way to Naval Intelligence and his understanding was clear that anything of importance must go to Naval Intelligence. The President's Naval Aide

- 14 -

called up Waesche in regard to an interview attributed to DeJoy at Cape May on the subject of that submarine said to have been sighted by a ship that Japan had near Barnegat. DeJoy was quoted as saying it wasn't their business, it was the Navy's business. Waesche rebuked him for that statement and also issued general orders that there was to be no discussion whatever of any observations of ships affecting our neutrality relations.

H.M.Jr: John?

Hanes: I have nothing.

H.M.Jr: DeJoy is co-pilot, is he not?

Gaston: Yes, he is second in command at Cape May.

H.M.Jr: All right.



THE SECRETARY OF STATE
WASHINGTON

September 28, 1939.

Dear Mr. Secretary:

I have your letter of September 27, enclosing memorandum for you dated September 26, relative to the chartering of certain ships which you and Mr. Harris consider dangerous. I am giving the matter attention.

Thanking you,

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned above the typed name of the sender.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED
1939 SEP 28 AM 11 26
DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM SENT

172

TO: American Embassy, Berlin, Germany

DATE: September 28, 1939, 5 p.m.

NO.: 595

Secretary Morgenthau expresses his appreciation of the valuable information which was contained in your telegram No. 1429 of September 26, 10 a.m., and his interest in receiving further reports like this.

The Secretary of the Treasury states that he would like to have by the first diplomatic pouch a confidential mail report amplifying the statements made in the telegram mentioned above, and indicating the sources from which the information was obtained.

HULL
(FL)

EA:LWW

JI

GRAY

Paris

Dated September 28, 1939

Rec'd 3:36 p.m.

Secretary of State

Washington

2235 September 28, 6 p.m.

FOR THE TREASURY.

A firm tendency prevailed on the securities market today and many French variable revenue securities made moderate gains. Rentes again showed strengthen, with gains ranging from 20 centimes to one franc twenty. The 1925 exchange pound guarantee issue gained a further 4 francs but the 1937 issue (with dollar pound guarantee) lost 2 francs 50.

The statement of the Bank of France dated September 21 published today revealed a further definite improvement. Commercial advances decreased by 538 million francs in spite of the preparation for the month end. The item under which open market operations are recorded shows a reduction of 20 millions. Advances against securities were down 79 millions and 30 day advances were down 367 millions. The note
circulation

-2- 2235 September 28, 6 p.m. from Paris.

circulation decreased by 1072 millions. Current and deposit accounts increased by 1104 millions. The ratio of gold cover decreased slightly from 59.05% to 59.03%.

BULLITT

CSB

RECEIVED

SEP 29 1938

INTERNATIONAL BANKING CORPORATION
NEW YORK

FEDERAL RESERVE BANK
OF NEW YORK

275

OFFICE CORRESPONDENCE

DATE September 29, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

DE NEDERLANDSCHE BANK.

At the request of Mr. Cochran I called Mr. de Jong of De Nederlandsche Bank this morning and was put through at 11:22 a.m. The following is a transcript of our conversation:

K. I want to speak to you in the following matter: In checking through our records we note that our cablegram of September 26, 1928, that is our No. 277, authorized you at that time to earmark gold for our account up to \$25,000,000. Even in the circumstances then obtaining you made slight use of this authorization. In the present changed circumstances you have followed the practice of releasing gold from your earmarked account with us when you required dollars. We assume, therefore, that in the present state of affairs the authorization of September 26, 1928 has lapsed. We desire, of course, to cooperate with you as always but we desire also to confirm the understanding that neither bank shall sell gold to and earmark it for the benefit of the other party without prior consultation and agreement.

de J. I understand what you mean. You assume that your authorization of September 26, 1928 has lapsed and under present circumstances you would want us to consult with you before we do anything of that sort. I quite understand.

FEDERAL RESERVE BANK
OF NEW YORK

176

OFFICE CORRESPONDENCE

DATE September 29, 1929.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoks

DE NEDERLANDSCHE BANK.

K. What I'll do is confirm our telephone conversation and ask you to acknowledge receipt of my cable.

de J. That is quite understood.

* * * * *

As regards the situation in Europe, de Jong thought it was very difficult to say anything about it; one could not get any reliable information and even if one had some, it was hard to analyze it. Nobody knew what the Russians wanted nor how far the Germans would go.

The exchange market was quiet in Amsterdam and the first few days of September they had had to sell a few dollars, as we knew from their cables, but in the last ten days they had done very little, the market being fairly quiet. I referred to our market here, mentioned that it seemed to me that demand and supply of sterling were in better balance now and that it looked steady near the 4.02 level. The selling orders for sterling which had come into the Amsterdam market, de Jong thought, were mostly for European account, but also for Dutch East Indies account.

LWK:KW

RECEIVED

SEP 30 1929

RECEIVED
FEDERAL RESERVE BANK
OF NEW YORK

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



OFFICE OF THE CHAIRMAN

September 29, 1939

AAA

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

Dear Henry:

I think you will recall that at last week's meeting at the Treasury Jesse Jones indulged in some good-natured panning of the Federal Reserve banks and myself included, for the "tightness" of the Reserve System in its industrial lending activity. In spite of the humor of the occasion I feel that the charges should not go unchallenged and I have accordingly sent Jesse a letter containing some observations on the matter and I am enclosing a copy herewith. I trust you will find the facts interesting and informative.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. S. Eccles".

M. S. Eccles,
Chairman

enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

September 29, 1959

Honorable Jesse Jones, Administrator
Federal Loan Agency
Washington, D. C.

Dear Jesse:

You will recall our discussion at the Treasury last week in which you jokingly took the Reserve System to task for its performance respecting industrial loans. In spite of the fact that you were joshing me, I feel that I shouldn't let your charges go unchallenged and for that reason I have checked the record and have some observations to make which I think you will find interesting and perhaps enlightening.

The figures do not tell the story unless considered in the light of comparative authorizations enjoyed by the two Federal agencies under the law. Both started out under the Act of Congress approved June 19, 1954. Under this Act the RFC had an important advantage over the Reserve banks since its loans were not limited to those for working capital purposes and its commitments were not subject to a prescribed ratio. However, for the sake of the argument, I am willing to admit that both agencies were unduly restricted and started out on a more or less even footing. The figures show that up to January 30, 1955, when Congress first liberalized the RFC's authority, the Federal Reserve banks had made loans and participations of \$32 million odd against approximately \$9 million for the RFC.

The amendment of January 30, 1955, liberalized the RFC's authority in a number of ways, as follows: (a) it changed "adequate security must be provided" to "the loan must be so secured as to reasonably assure repayment"; (b) eliminated the maximum of \$500,000 for any one borrower; (c) extended the maximum maturity from five to ten years; and (d) eliminated the requirement that the applicant must have been established prior to January 1, 1954. The Federal Reserve banks received no liberalization whatsoever at that time, nor since.

In spite of the great advantage enjoyed by the RFC for over three years from this point on, the cumulative figures up to April 1958 (when the bars were dropped again as to RFC lending) show that the Federal Reserve banks made loans and participations of \$111 million odd as against approximately \$105 million for the RFC.

Honorable Jesse Jones - 2

The amendment of April 18, 1958, not only removed practically all restrictions on business loans by the RFC but was also a clear indication on the part of Congress that the RFC was expected to carry the ball and enjoy the spotlight in this field. Nevertheless the Federal Reserve banks continued to make new loans, increasing the cumulative total of loans and participations by \$21 million up to the end of June 1959. During this period the RFC "authorizations" increased approximately \$255 million although disbursements increased only about \$75 million. To my mind it is rather remarkable that the Reserve banks were able to make even that amount of loans in view of the competitive situation.

The figures also show an interesting sidelight on the question of "tightness" in authorizations. As of June 28, 1959, the Federal Reserve banks had authorized loans totaling \$179 million odd, of which \$14 million or approximately 8 per cent had been canceled, whereas the RFC had authorized a total of \$454 million odd, of which \$85 million or approximately 20 per cent had been canceled. As you know, loans are canceled not so much because the borrowers procure funds elsewhere as for the reason that the conditions attached to the "authorized" loans are such that the borrower cannot or is unwilling to meet them.

The performance of the Federal Reserve banks should also be viewed in the light of other difficulties. The law requires that applications be considered by an industrial advisory committee at each Federal Reserve bank, selected from successful business men in the district. It is only natural that these men, drawn from businesses in good financial condition, should be inclined to look with disfavor upon many applications submitted by their less successful competitors. Again, the law does not give the Board of Governors in Washington any authority to pass upon applications but only to make regulations under which the Reserve banks should lend. Obviously these regulations can only qualify the statutory authority, not broaden it. The ability of the Board in Washington, therefore, to stimulate industrial loans by the Reserve banks has been limited both by the restrictions in the statute and by the fact that the statute gives no final power to the Board to approve or disapprove loan applications.

In the light of the above, it seems to me that the Federal Reserve System has done as well with industrial loans as could be expected considering the handicaps under which it has had to operate.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles
Chairman

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

180

DATE September 29, 1939

TO Mr. White
FROM Miss Kistler

Subject: Recent Trends in Foreign Trade

1. Data for the first 22 days of September presage a sharp decline in our exports. September 1-22 we exported only \$138 million as compared to \$248 million during the month of August, on a proportional basis, a drop of one-fourth. Exports to Germany and Poland have virtually ceased; exports to France have been drastically cut; while exports to the United Kingdom and Canada have held up better than exports to non-belligerent countries.

United States Exports by Countries

(In millions of dollars)

	Sept. 1-22, 1939	August, 1939
Total	138	248
United Kingdom	33	47
Canada	27	41
France	5	22
Germany	.4	7
Poland and Dansig	.2	2
All other countries	72	129

2. United States and Australia are the only two leading countries whose exports are lower so far this year than last. In August for the first time this year, United States exports exceeded by a considerable margin the level of the corresponding months of 1938.

Exports of Leading Countries

Percentage Change, 1939 over 1938

	January-August	Month of August
<u>United States</u>	<u>- 7%</u>	<u>9%</u>
United Kingdom	-	-
France	27	17

Mr. White - 2

	January-July 1/	Month of July 1/
Netherlands	6%	20%
Germany 2/	8	14
Switzerland	10	22
Japan	25	46

	January-June 1/	Month of June 1/
Australia	- 18%	- 16%
Canada	13	17
Sweden	17	19

3. Imports into the United States, on the other hand, have increased more this year than imports into any other leading country.

Imports of Leading Countries
Percentage Change, 1939 over 1938

	January-August	Month of August
<u>United States</u>	<u>14%</u>	<u>6%</u>
France	10	4
United Kingdom	- 2	9

	January-July 1/	Month of July 1/
Switzerland	11%	22%
Japan	11	18
Netherlands	5	11
Germany 2/	1	5

	January-June 1/	Month of June 1/
Sweden	12%	30%
Canada	3	9
Australia	- 11	- 1

1/ Latest figures available.

2/ Trade with Austria excluded after March 1938. From October 1938 trade for Greater Germany includes Austria and Sudetenland.

OFFICE OF THE COMMISSIONER OF CUSTOMS

182

September 29, 1939.

TO COMMISSIONER HARRIS

FROM W. R. JOHNSON:

Mr. Cook, representing the Detroit-Windsor Tunnel, Detroit, Mich., called at the Bureau this afternoon to report rumors originating from Canadian sources that plots are on foot to blow up the Detroit-Windsor Tunnel, the Ambassador Bridge at Detroit, Peace Bridge at Buffalo, and the Hudson River Tunnel at New York. There appears to be no verification of the rumors at this time.

Mr. Cook called at the Federal Bureau of Investigation in Washington and discussed the matter there. He came here to learn whether customs could work out some procedure for examining vehicles entering the Detroit-Windsor Tunnel to detect explosives.

It was suggested that this might be done on the ground of examining the vehicles for contraband or by making the regular U.S. Customs examination on the Canadian side of the tunnel and arranging for Canadian Customs examination on the American side of the tunnel. The matter is under consideration in the Bureau.

The following despatch received by Coast Guard from the Commanding Officer of the Coast Guard Cutter TALLAPOOSA, under date of September 28, 1939, suggests interesting possibilities as to the continued operation of German merchant ships:

"PARAMANIAN SS ADA ARRIVED SAVANNAH FROM CUBA TODAY X
SS ADA FORMERLY DANZIG REGISTRY HAS GERMAN MASTER,
CHIEF, AND ASSISTANT ENGINEER AND TWO GERMANS IN CREW
X REMAINDER OF CREW ARE VARIOUS NATIONALITIES INCLUD-
ING ONE AMERICAN CITIZEN."

Mr. Louis B. Fats, Vice-President of the Mississippi Shipping Company, Inc., New Orleans, discussed with me today the matter of claims against his line for undeclared vessel repairs and equipment obtained in foreign ports. He indicated the intention of his company to cooperate with Customs in the matter in every possible way. I advised him to discuss the matter with our collector at New Orleans and to give our people all possible information.

- 2 -

I attach a copy of a letter from the collector of customs at Pittsburgh, Pa., to complete your record in the manganese matter.

A handwritten signature in dark ink, appearing to be 'MRF', with a long horizontal line extending to the right.

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 05-18-1988 BY SP-10/STW

September 26, 1939.

The Commissioner of Customs,
Washington, D. C.

Attention: Mr. W. R. Johnson

Sir:

Referring to your telephone conversation of even date relative to manganese ore on hand in bonded warehouses at this port, please be advised that the records of this office as of September 15, 1939, show that the following metallic contents of such ore was on hand:

<u>Owner of merchandise</u>	<u>Address</u>	<u>Warehoused at</u>	<u>Metallic contents of manganese ore on hand</u>
Carnegie-Illinois Steel Corporation	Pittsburgh, Pa.	(Etna, Pa., Braddock, Pa.)	401,587,028 lbs. (179,279.92 Long tons)
Jones & Laughlin Steel Corporation	Pittsburgh, Pa.	Aliquippa, Pa.	50,307,224 lbs. (22,458.58 Long tons)
Electro Metallurgical Company	Alloy, W. Va.	Alloy, W. Va.	274,077,557 lbs. (122,464.98 L. Tons)
		TOTAL - - - -	725,971,809 lbs.
		TOTAL	324,103.48 Long Tons

If any further information is desired, please advise.

Respectfully,

Leo A. Ivory,

LEO A. IVORY,
Collector of Customs

CAD:eo

MEMORANDUM

September 29, 1939

185

At yesterday morning's regular group meeting the Secretary asked that I make appointments for him to receive Messrs. Leroy-Beaulieu and Pinsent, Financial Counselors of the French and British Embassies respectively, in order that he might give certain information in reply to inquiries they have made with respect to the facilities of the Federal Reserve Bank of New York. The Secretary asked that anyone who might have a question as to this policy should bring it to his attention prior to the 2:45 appointment yesterday which was to be made for Monsieur Leroy-Beaulieu.

At 12:40 noon the three economists acquainted me with certain questions which they had in the premises. Through Mrs. Klots we let the Secretary know that there were questions. The Secretary therefore instructed me to cancel the appointments and, instead, for the three economists and myself to meet with him at 2:45. This schedule was carried out, Mr. Baillie joining the group. After discussion of the questions raised by the economists, and after the Secretary made clear his aims in the premises, it was decided that I should make appointments for the two Financial Counselors to come to the Department today and acquaint them with the Secretary's communication.

This morning I told the Secretary, when he telephoned me from his house at 9 o'clock, that I had made appointments for Leroy-Beaulieu to come in at 12 noon and for Pinsent to come at 3 P.M., and that I had dictated the lines along which I planned to speak to them. At the Secretary's request, I gave my notes to Mr. Stewart to submit to the Secretary when Mr. Stewart called at the house between 9 and 10 o'clock. Upon Mr. Stewart's return he told me that the Secretary approved the draft statements which I had submitted, but desired that they be made orally, and that no memorandum be handed either of the foreign representatives.

Monsieur Leroy-Beaulieu called at 12 noon. I told him that the Secretary had planned to receive him yesterday, but our schedule was upset, and unfortunately the Secretary is not here today because of illness. Leroy-Beaulieu stated that when he had crossed on the Normandie with the Secretary last summer he had talked with him in regard to French plane purchases in this country. He had hoped to be able to give the Secretary yesterday, in a purely informal conversation, his observations upon the working of French arrangements for purchasing planes in this country. He still hopes to have this opportunity if it may prove agreeable to the Secretary. He summarized the situation to me as follows:

The French obtained less than 50% deliveries before the outbreak of war of planes which they had contracted for in this country. As the remainder of the planes are finished the French Government pays therefor in full, accepting these planes in the United States and lacking privilege under the present Neutrality Law to ship them to France. Leroy-Beaulieu thought that this fact was not accurately understood in this country, even by members of Congress.

CONFIDENTIAL

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As to a second point, Leroy-Beaulieu stated that when the French aeroplane orders had been given in this country several months ago, his Government was required to put up money for expansion of American aeroplane plant facilities to carry out these orders. Since the initial French orders were given, the U. S. Navy Department has now under our new American armament plan placed orders with some of the same factories, most particularly Pratt & Whitney. The French purchasing officials in New York are considering the signing this afternoon of a contract for 3,000 additional planes, with reservations in case the present embargo law is not repealed. Since the Navy orders with Pratt & Whitney must be given priority by the manufacturers, the acceptance of the French contract would require a further expansion of plant facilities, with a resultant increase in the cost to France of from 15 to 20% on the aeroplanes under contemplation. Leroy-Beaulieu thus stresses the point that France is paying for the expansion of our aeroplane industry and at the same time finding obstacles or delays in obtaining delivery of purchases.

After the foregoing remarks, Leroy-Beaulieu asked me what I had in mind. I told him that I had spoken with the Secretary within recent days of my conversations with himself and also with Pissent, his British colleague. I then stated, referring to the exact phrases typed on the memoranda in my hands:

"You have inquired of the Treasury Department whether it would be possible for you to have opened in the name of your Government, or of one of its agencies, an account with our fiscal agent, the Federal Reserve Bank at New York. I have taken this matter up with the Secretary of the Treasury and he is delighted to inform you that you may be accorded this convenience."

"You recognize, of course, that the Secretary has the right to look at the Federal Reserve Bank's fiscal agency accounts."

Leroy-Beaulieu immediately stated that his inquiry with respect to the possibility of opening an account with the Federal Reserve Bank had arisen after the Secretary had intimated to him that for political reasons, in so far as the United States, as well as France, are concerned, it would be desirable for the account covering French war purchases in the United States to be carried with the Federal Reserve Bank rather than with private banks. I reminded Leroy-Beaulieu that I had not participated in any conversations of this sort and I preferred that our present discussion start with the premise that he had made the above inquiry of me. If I were giving him a formal statement, instead of this oral one, he would feel obliged, he said, in his acknowledgment to state the circumstances which had led to his inquiry. He went on further to say that if the Secretary had not expressed

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his preference for the French Government to handle its purchasing business account through the Federal Reserve Bank of New York rather than through private banks, the French Government undoubtedly would have utilized the services of private bankers, particularly Morgans, as in the last war.

Mr. Leroy-Beaulieu continued that the arrangement to pay for purchases of aeroplanes through direct Bank of France - Federal Reserve Bank of New York channels had resulted from American official recommendations. He stated that this practice of using the Bank of France as a third party in transactions between the French Government and an American bank had proved awkward. In answer to his question, I told Leroy-Beaulieu that the term "fiscal agent" as employed by us in describing the relationship between the Federal Reserve Bank of New York and the Treasury had no corresponding phrase in French, but that Rueff understood this use. When Leroy-Beaulieu stated he did not know whether the French Government would be making a deposit with the Treasury itself, with exceptional control over it being placed in the hands of the Treasury, by opening an account with the Federal Reserve Bank of New York as our fiscal agent, I told him that he presumably would desire, in discussing with Governor Harrison or other officers of the Federal Reserve Bank in New York the possibility of opening an account, to seek such information as they may require with respect to the exact character of the fiscal agent relationship, and the conditions applicable to the opening of their account.

Leroy-Beaulieu told me that the French plan is now to have attached to the French purchasing commission one or two men who would actually do the paying. That is, any deposit which the French Government now makes for the benefit of the purchasing commission will be merely a deposit and not a commercial account. The French officials will draw checks on this account themselves, or seek nothing beyond the bank making payment against invoices. All inspection of goods and certification thereof will be in the hands of the French officials and they will do most of their business from their own checkbook, drawing on their funds with the American bank that may be chosen. Leroy-Beaulieu insisted that this would eliminate the question of profit to American banks. He said Morgans profit in the last war came from the 1/16% commission, which would now be nonexistent even if the deposit were with a private bank. In answer to my inquiry, Leroy-Beaulieu stated that the French Government has accounts with several banks, including Morgans, and would presumably continue with these even if an account for the benefit of the purchasing commission should be opened with the Federal Reserve Bank. In answer to his inquiry, I told Leroy-Beaulieu that I was going to speak to Pinsent this afternoon, along the same lines that I had talked with him.

Leroy-Beaulieu was not sure that his Government will decide that having an account with the Federal Reserve Bank in the above-mentioned circumstances will offer such real conveniences as to warrant a decision in favor of its use. He wants to talk to Pinsent on the point, intimating

CONFIDENTIAL

that the French and the British would prefer to follow a common system in their purchases.

Leroy-Beaulieu presumed that if an account of the above character should be opened with the Federal Reserve Bank by the French Government, the account of the Bank of France for purchasing aeroplanes would be merged into the new account.

Before leaving, and after I had repeated to him again the message which I first gave him, Leroy-Beaulieu again made the point that the French Government would not have raised the question of utilizing the Federal Reserve Bank unless the Secretary of the Treasury, and earlier, in connection with aeroplanes, the President himself, had not let it be known to them that this practice was favored for political reasons, both American and French. I told Leroy-Beaulieu that I had explained to him that the Secretary of the Treasury is "delighted" to inform him that the above-described convenience of an account with our fiscal agent may be accorded. The decision as to whether this is a real convenience and as to whether it should be accepted, considering political and all other circumstances, is left entirely to the French.

Mr. Pinsent called on me at 3 o'clock by appointment. He first took up with me the question of Indian silver policy, which I have reported in a separate memorandum.

I gave Pinsent orally the same statement hereinabove quoted which I had earlier made to Leroy-Beaulieu in regard to Federal Reserve Bank facilities. Mr. Pinsent appreciated this information and said he would transmit it promptly to his people. He said that he understood that the French were to make a decision very soon on this point of selecting a bank in which to carry their deposits for purchases, but that the British were not so far along. He said they must still look into the problems that confront their purchasing commission. This commission would include technicians who can pass on contracts, documents, etc., so the selected bank will be merely a "deposit bank". In answer to his inquiry as to whether the Secretary had objections to the British choosing a private bank, I reiterated that the Secretary was "delighted" to inform him that the British could be accorded the Federal Reserve Bank convenience, but that the choice rested with the British. I let Mr. Pinsent know that the British were free to discuss the matter with the Federal Reserve Bank at New York if and when they desired.



H. Merle Cochran

CONFIDENTIAL

TREASURY DEPARTMENT

189

INTER OFFICE COMMUNICATION

DATE September 29, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

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After the 3:15 meeting in the Secretary's Office yesterday afternoon, I telephoned to Mr. Livesey in the Department of State the suggestions which the Treasury Department had agreed upon with respect to the draft of a reply to Cablegram #16 from Mr. Welles at Panama. Mr. Livesey had his Secretary take down the points which I made over the telephone. At my request he has provided the following memorandum of the conversation, which accurately reports it:

"Treasury Advice on Panama Cable No. 16, September 26, 3 P.M.

After cable No. 16 had been discussed yesterday by a Treasury group with the State Department and today by the Treasury group with Secretary Morgenthau, Mr. Cochran telephoned the following suggestions as having Mr. Morgenthau's approval, but emphasizing that they are merely suggestions:

(1) Any Export-Import Bank or Stabilization Fund matter could be handled at once along lines which Mr. Welles understands from his talks with the Treasury and Mr. Jones.

(2) We suggest that Colombia and Peru give Mr. Welles all information they have as to their needs and send on as quickly as possible supplementary information so that

(3) The Under Secretary, Mr. Eanes, may discuss with Mr. Welles, Mr. Morgenthau and Mr. Jones these situations and be in a position to talk about them at Guatemala.

-2-

(4) We believe it undesirable to have visits here for the immediate present because of our own internal political reasons."

In terminating our conversation I assured Mr. Livesey that the Treasury was anxious to be helpful and he agreed that our suggestions were "entirely reasonable". He said that he would take this information immediately to Secretary Hull with the view to a cablegram being dispatched to Mr. Welles.

A handwritten signature in dark ink, appearing to be 'B. W. S.', is centered on the page.

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TREASURY DEPARTMENT

191

INTER OFFICE COMMUNICATION

DATE September 29, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market was quiet today, with increased volume in sterling transactions. Sterling ranged between 4.01-3/8 and 4.02 and closed at 4.01-7/8.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £890,000 from the following sources:

Commercial concerns.....	£ 51,000
Foreign banks (Europe, Far East and South America).....	£ 709,000
Fed. Res. Bk. (£50,000 for Norway, £50,000 for Sweden)...	£ 100,000
Total	£ 890,000

Purchases of sterling amounted to £939,000 as indicated below:

By commercial concerns (Rubber houses good buyers).....	£ 629,000
By foreign banks (Europe, Far East and South America)....	£ 310,000
Total	£ 939,000

The banks also reported that the British Control purchased sterling amounting to £10,000 at the official rate.

We received through the Federal Reserve Bank of New York a request from the Central Bank of Argentina to purchase \$2,500,000 in gold to be added to their earmarked account, which request was approved.

The National Bank of Belgium today sold to us \$1,151,000 gold from their earmarked account.

Handy and Harman further reduced their buying price for foreign silver to 35¢ today. The only recent purchases of silver which we have made were 50,000 ounces on September 28 and 100,000 ounces on September 29 under our regular monthly agreement with Canada to purchase up to 1,200,000 ounces.

Mr. George Boncesco, Financial Counselor to the Rumanian Legation, called on the telephone today relative to a cable which the Rumanian Minister received from the Minister of Finance in Bucharest, instructing the purchase of twenty tons (640,000 ounces) of silver for minting purposes. The silver is to be shipped to Rumania via Constanza. Mr. Boncesco was invited to call at this office, which he did, and we discussed with him the method of purchasing silver in this market. The question of shipment of the silver was also mentioned.

H. H. S. **CONFIDENTIAL**

MEMORANDUM

September 29, 1939.

192

Mr. Pilsent, Financial Counselor of the British Embassy, called at 3 p.m. today. He stated that he had received a message from his Government in regard to Indian silver policy. Since the Government of India desires in present circumstances to conserve its foreign exchange holdings, it has been releasing Government silver to the Indian market. To make this policy more effective, it is proposed that the Government of India impose at an early date an absolute embargo on silver imports. The British prefer that no action be taken without acquainting Secretary Morgenthau with the plan and seeking his reaction. Furthermore, they would appreciate any personal advice Secretary might care to give as to whether such move at this time might influence the Silver Block to take an adverse attitude on the Neutrality Bill. Mr. Pilsent desires to hear from us yet today.

I submitted the foregoing information to Secretary Morgenthau at 3:45 p.m. He asked me to put it in memorandum form for the Three Economists and Mr. White to start studying this afternoon. He asked me to tell Mr. Pilsent by telephone that no immediate reply could be given and that the matter would be taken up on Monday. I have done this.

With respect to the subject of silver, Mr. Knobe told me by telephone at 2:35 this afternoon, and in strict confidence, that the Chase Bank had just given him the following information. The representative in Mexico of the Chase Bank had telephoned today, presumably from the Bank of Mexico, stating that the Mexicans believed the drop in silver was due to manipulations by the United States Treasury, following the Canadian silver purchase which the United States felt obliged to make. The New York office gave its representative information to disabuse the Mexicans of this ally reasoning, emphasizing that the recent rise in silver had been due to short-covering; that the subsequent decline had come when positions were covered; and that Mexican sales of silver had contributed to this drop.



CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2253 (SECTION ONE)

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

Various loopholes are being discovered as time goes on in the decree providing for exchange control and in corollary measures. Up to this time, fortunately, so few people have discovered their existence that no serious misgiving has been caused. It is presumed that if the situation warrants it, these loopholes will be blocked. The Foreign Exchange Office has ruled, for one thing, that there is nothing to prevent a French national from depositing francs to the account of a foreigner in Paris under the existing regulations. It will be recalled that the foreigner in Paris can, of course, under certain specified conditions, take a balance out of France in foreign currency or use funds already abroad to "reimburse" the Frenchman. Furthermore, it is legal for anyone who has a dollar account in France to secure a dollar check here on New York and presumably it would be possible for him to find a way to smuggle the check out. (END SECTION ONE)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 2253 (Section Two)
DATE: September 29, 1939, 7 p.m.

The following is another example: A foreign non-resident who was the holder of an important sterling balance in London, recently used that balance to buy francs, as was permitted; later, as a foreign non-resident he secured authority from the Foreign Exchange Office in Paris to use those francs to purchase dollars. However, in effect the Bank of France sometimes acts with the Foreign Exchange Office as a double check and our friend in the Foreign Exchange Office refused to supply the dollars which the authorization called for. Subsequently, however, he permitted the owner to repurchase sterling. The deal was detected only by reason of the size of the transaction involved and the fact that our friend remembered the earlier conversion into francs by the holder of sterling. It is possible that similar cases may get by without being detected. Also, the Foreign Exchange Advisory Commission has so far (please refer to telegram no. 1958 of September 14, 11 a.m.) ruled that it is not required that there be included in the declaration of assets called for in the decree of September 17 (our telegram no. 2028 of September

18, 1 p.m.) either dollar or other foreign currency accounts held in France or foreign securities which are physically held abroad but which are carried here on the account of French nationals. (END SECTION TWO)

RECEIVED

SEP 30 1938

TREASURY DEPARTMENT
Office of the Controller
General Accounting Office

Paraphrase of Section Four of Telegram No. 2253,
September 29, 1939, 7 p.m., from Paris

We were informed today in strict confidence that whereas no steps had been taken until recently by the Italian Government which would look toward meeting the maturities in the amount of \$4,000,000 which will become due in New York on October 1, it has recently been decided by the Italian Government that it will not default on these obligations. Then it maintained that it lacked dollar exchange and was unable to insure gold shipments to the United States from Italy.

Now, however, largely through sale of gold to Swiss account, it has been able to buy dollar exchange in the amount of \$2,000,700 (\$2,700,000?) and it is in hopes of being able to obtain the balance in the near future. Probably you have already received the foregoing information but we are passing it on to you as a possible straw in the wind indicating the attitude of the Italian Government with reference to war. It is our respectful request that no reference be made to the Embassy if a check-up is made in New York.

We have also learned that Switzerland has been offered free port facilities at Genoa and other accommodations for transit traffic to Germany, as well as for imports for Swiss needs. END SECTION FOUR.

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PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 2253,
SEPTEMBER 29, 1939, 7 p.m., FROM PARIS

The catch to this offer was that it would be necessary ^{for Switzerland} to furnish certain needed "credits". The Swiss were not willing to do this, with the result that Italy refused to extend the accommodations. We are informed that the Swiss are now negotiating with ^{the} French to secure transit and Mediterranean port facilities at Cette.

The Ambassador was told today by Reynaud that personally he has every (*) of removing from Paris. We have heard that there is increasing opposition to the proposal to move the financial community to Chatel Guyon. The increased opposition is largely based on the need for further investigations of the complete lack of facilities for carrying on the Bourse rediscount and other operations at Chatel Guyon. Several banks and brokerage houses were offered adjoining dressing rooms in the public bath as safe deposit facilities!

Reynaud also informed the Ambassador that he was supplying funds to the Polish Government and that he was paying for the transportation of the Polish Embassy to Paris from Moscow.

The securities market was weak owing to the fortnightly liquidation and, in spite of the censor's reticence, to the news of the German-Russian declaration. ^{also} Rentes/were weak.

(END OF MESSAGE)

BULLITT

(*) Apparent omission.

EA:EB

Paraphrase of Section Three of Telegram No. 2253,
September 29, 1939, 7 p.m. from Paris.

As we have previously reported, it is not the desire or intention at the present time of the Government, that committee or the Foreign Exchange Office to requisition foreign holdings. Moreover, they do not desire Frenchmen to convert their foreign holdings at the present time; on the contrary, they prefer that such holdings be held abroad. It is our feeling that in the event the war is a long one, the time will naturally come when the Government will requisition such holdings. It seems to us that in the meantime it is to the obvious advantage of the Government to keep them abroad and that by such action certain protection against further depreciation of the franc is afforded the French holder. As a result of the innate reluctance of the French to declare their holdings to their Government, on the other hand, there are a number of physical transfers of securities to France despite the British insurance rate.

It is our understanding that the Government is maintaining a check on the invoicing of exports and that they are setting up various safeguards to assure that all proceeds from French exports will go through the Bank of France eventually.

BULLITT

2021 2 30
EA:EB

TREASURY DEPARTMENT

199

INTER OFFICE COMMUNICATION

DATE September 29, 1939

TO Secretary Morgenthau
FROM Mr. White

Subject: The New British Economic Trade Policy

1. The British Government is apparently adopting a new commercial policy which may be of considerable importance to us. In the cable of September 13, #1631, Butterworth indicated that the British Government was considering outright purchases of world stocks of primary commodities and the resale of those stocks through the London market to neutral countries, including the United States.

The first step which Britain took in this direction was the purchase of the entire wool clip of Australia. Secretary Hull informed you on September 23 that arrangements had been made for the purchase of surpluses of most primary products of Australia including fruits, meat, butter and possibly wheat. The British have also indicated that they are arranging for the control of jute.

2. This new British trade policy may have profound implications for the United States because we are dependent upon foreign sources for many products the price and supply of which can be greatly influenced by British action. Price disparities and dislocations may easily result since the British control has as one of the two objectives the maximization of foreign exchange proceeds and they will probably try to adjust prices to Americans accordingly.

The announcement of the purchase of the Australian wool clip was followed by a sharp rise in the price of wool in the United States. The problem created by the rise in the price of wool is being considered by a sub-committee of the Executive Committee on Commercial Policy and a report is expected to be ready in a few days.

3. Another sub-committee of the Executive Committee on Commercial Policy was appointed to study the general problem raised by the new British trade policy but they have not as yet submitted any report.

4. The protection of American interests in the light of the British trade policy may require direct intervention by this government in order to give the American purchasers a more equal bargaining position with the sellers.

5. The following suggest themselves as possible ways of handling the problem:

(a) The Commodity Credit Corporation and/or the Federal Surplus Commodity Corporation to act as a central buying agency for United States needs of the specific commodities and that the Government corporation would in turn sell to domestic industries without profit.

This would provide a single bargaining agency to negotiate the terms under which the British Government would sell to this country and to strengthen the bargaining agency by giving it official status. It is thought that the Commodity Credit Corporation would act as the purchasing agent for domestic industry and would not attempt to prohibit, restrict or interfere with private purchases of foreign products that may be desired by private interests.

(b) It has also been suggested that a governmental committee be set up which would consult with the British and with the American interests concerned in an effort to arrive at a "fair" price to be paid by the American private interests to the British for the commodity. Once a fair price is agreed upon the purchase would be by the American interests directly from the British. This approach would not require new legislation. The government merely used its good offices to persuade the British to sell to American interests at a "fair" price.

A precedent for this type of activity can be found in the gentlemen's agreements which have been made between the Japanese Government and American industry under the sponsorship and benevolent arbitration of the Tariff Commission resulting in voluntary limitations on Japanese exports to the United States.

(c) The British have indicated that they might wish to arrange for sales to the United States of the controlled products by bartering for American products which they need.

These proposals obviously need much study but further consideration of them is being postponed until the report of the Executive Committee on Commercial Policy is ready.

EG

GRAY

Paris

Dated September 29, 1939

Rec'd 7:05 a.m. 30th.

Secretary of State,
Washington.

2254, September 29, 9 p.m. (SECTION ONE)

FOR THE TREASURY.

Our telegram No. 2180, September 26, 5 p.m.

The decision of the Bank of France to expand its credit facilities with a view to restoring a more normal functioning of the economic life of the country was outlined in more detail in a communique last evening by the Ministry of Finance, following a conference with Governor Fournier of the Bank of France and the Minister of Commerce.

It was again announced that the Bank of France will take care of unpaid drafts of financially embarrassed evacuated debtors.

(END OF SECTION ONE)

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SEP 30 1939

TREASURY DEPARTMENT
Office of the Secretary
Treasury Building, Washington, D.C.

EG

GRAY

Paris

Dated September 29, 1939

Rec'd 7:10 a.m., Sept. 30

Secretary of State,
Washington.

2254, September 29, 9 p.m. (SECTION TWO)

Where such drafts have been reimbursed to the Bank of France by the banks and business concerns which discounted them they may, during the duration of the war, be presented again for discount at the Bank of France.

As concerns unmobilized debtors adversely affected by way of conditions, the Bank of France invites banks and drawers of bills of exchange to seek friendly settlements looking to postponement or if not convenient to renewal. The Bank of France will accept for discount such paper renewed or postponed.

Furthermore the Bank of France is prepared to finance through discount operations government receipts for requisitioned stocks and in this connection has issued appropriate instructions to its branches and to banking institutions.

In conclusion the communique emphasizes that these measures should make it possible to maintain economic activity and safeguard the "normal utilization of credit,

more

-2- #2254, September 29, 9 p.m. (SECTION TWO) from Paris
more indispensable than ever". Finally industrial and
business concerns are urged to cooperate to this end and
thus conserve their normal credit practice and to refrain
from demanding cash payment where credit has generally
heretofore been granted. We might add that this plea is
highly opportune.

(END MESSAGE)

BULLITT

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SEP 30 1939

TRASARY DEPARTMENT
Office of the Treasurer
Federal Reserve Bank of New York

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 29, 1939

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

Upon his return from the Secretary's house this morning, Mr. Stewart told me that the Secretary was interested in knowing whether Dr. Schacht, former Minister of Finance and head of the German Reichsbank, had returned to Germany recently. It had occurred to Mr. Stewart, since Dr. Schacht had been so instrumental in building up Germany's trade relations under the present system, it would seem logical to utilize his services, either within or outside of Germany, now that his country is at war. Mr. Stewart said the Secretary wanted me to ascertain the present whereabouts and activities of Schacht, resorting to cable instructions to Butterworth, Heath and Matthews, if necessary and advisable.

I told Mr. Stewart that when I was last in Europe, I had reports on Dr. Schacht, from Leon Fraser in Paris about August 10, and from friends at the B.I.S. about August 16. Fraser had told me that when he, Fraser, had visited Italy a few days previously he had heard that Schacht had been there, and in Switzerland he had been informed that Schacht was living in the Italian part of Switzerland and seen much in the company of a German sculptress. This last information was confirmed to me by my B.I.S. friends.

In agreement with Mr. Stewart, I have telephoned Mr. Fraser in New York this morning. I recalled our conversation in Paris with respect to Dr. Schacht. Fraser confirmed that when he was in Zurich he learned that Dr.

CONFIDENTIAL

-2-

Schacht had been there just the day before, and was living at Lugano or Locarno (both points in Italian Switzerland). Eugene Meyer, who had seen Schacht at that time, had told Fraser of this. Fraser has had word from no one as to Schacht since his conversation with Meyer. I told Fraser that I was naturally curious as to what had become of our old B.I.S. friend. Fraser volunteered to send a personal cable to one of his friends in Europe where he thought appropriate inquiry could be usefully made, if I desired. I told him I would let him know if I wanted his assistance in this direction. I believe it wise to follow this channel rather than to start an inquiry through the three European capitals.



With the Secretary's approval, I telephoned Mr. Fraser this afternoon accepting his offer. He will, I understand, call Basel friends on a purely personal basis, to obtain current B.I.S. gossip including anything on Dr. Schacht.

CONFIDENTIAL

The Secretan :

September 29, 1939.

5:15 P.M. - The Coast Guard Communications just phoned the following message:

Plane from Charleston Air Station sighted steamer at 11:35 bearing
 (E 64 72) 84 from Fort Sumter Light, distance 43 miles. All identification marks
 were painted out. No flag was displayed. On course 240. ^(J.W.) Speed about
 12 knots. Combination tanker and cargo. Moderate speed.

Coast Guard will keep
 her under surveillance. Probably
 British navy supply boat bound
 for Caribbean.

(JWS)

FS

PLAIN

London

Dated September 29, 1939

Rec'd 1:53 p.m.

Secretary of State,
Washington.

1869, September 29.

FOR TREASURY FROM BUTTERWORTH.

Last night in reply to the debate in the House of Commons on the war budget Simon made a speech the main points of which are summarized below.

1. Dealing with economy he stated that Treasury control is being furthered by placing Treasury people inside spending departments (a development mentioned in my 1647 of September 14th.) but warned that because of overwork and the necessity of consulting senior officials now obviously very busy, quick results could not be expected.

2. With regard to the bank rate he replied to critics who could see no reason for its increase on August 24 by stating that this move "gave time to apply more discriminating methods of controlling inflationary tendencies. It had the effect of canalizing expenditure and enabling people to borrow and use money for useful purposes while stopping unuseful, unsocial and dangerous uses of these facilities (...) that was the position yesterday when I introduced
the

FS 2-No. 1869, September 29, from London

the budget which had a very restraining effect on spending in certain directions." He recalled that bank rate had been moved from 4 to 8 per cent and 10 per cent at the outbreak of war in 1914 and had then been reduced to 5 per cent where it remained until February 1922 and asked that "a sense of proportion be maintained". He asserted that in the past three weeks the British Government had succeeded in establishing a more discriminating control and stated that "if they could devise methods so as to counteract inflationary tendencies a certain amount of inconvenience might well be justified".

3. He replied to those who asked for information regarding the method of dealing with the rate of interest at which the Government hoped to make long-term loans by saying that great caution was necessary but that the "time was rapidly approaching when their borrowing plans must be announced." The aim would be to borrow from the genuine savings of the people at the lowest possible rate.

4. He concluded with an appeal to employers not to dismiss staffs, thus indicating that the dislocation of business and the consequent unemployment among clerical and other workers not falling within the official unemployment returns is greater than expected and that the absorption of personnel into war industries is proving slower.

This,

FS 3-No. 1869, September 29 from London

This, of course, is not only the result of lack of organization to expand rapidly war activity but reveals the Achilles' heel of the budget. Drastic income and surtaxes not only affect the wealthier sections of the community but those that depend on them. This potential productive activity wastes unless preparations have been made to absorb it in the war effort.

The city and the press have welcomed the bank rate reduction, especially as it was a full per cent, the custom being to reduce the bank rate by one-half per cent, and hopes of a further reduction in the near future are expressed. In a letter in the TIMES today, Keynes emphasises the importance of reductions in the interest rate in view of Government borrowing needs and states that "thus the future burden of £1,500 million borrowed at $2\frac{1}{2}$ per cent will be the same as the burden of £1,280 million borrowed at 3 per cent and of £1,000 million borrowed at 4 per cent, since in each case the annual service of the loan including the sinking fund will be £45 million per annum. That is to say the gain of borrowing at 3 per cent rather than 4 per cent is greater than the whole of the proceeds of the new rates of taxation in the full year, and the gain of borrowing at $2\frac{1}{2}$ per cent rather than 3 per cent would help the Treasury as much as would doubling of the increase announced yesterday."

Keynes

FS 4-No. 1869, September 29 from London

Keynes makes it clear that he does not consider the new tax burdens excessive "quite the contrary what strikes me about this budget is the utter futility of the old imposts to solve the problem even if pushed almost to the limits of endurance. Apart from the excess profits tax, the increased taxation comes to less than 5 per cent of our pre-war income. But our national income should increase in due course through greater employment, longer hours and the bringing in of women and others not previously available for employment by some 10-20 per cent at pre-war wages and prices. Thus the purchasing power left in the hands of the public after deducting the new taxation will be considerably more than before." He goes on to describe as fanciful and highly unrealistic the idea that more or less pre-war price levels can be maintained since sterling has depreciated about 15 per cent, world prices have risen, and transport costs increased and advocates a deliberate price rise on a reasonable scale leaving the consumer's choice as unimpeded as possible and mentions an average increase of 20 per cent on wholesale prices as suitable. He concludes by describing the excess profits tax as the most important of the new proposals and the rest "appalling as it may seem to individuals" as "chicken feed to the dragons of war".

It

FS 5-No. 1869, September 29 from London

It seems to me that neither Keynes nor Simon have exhibited a concept of the real character or magnitude of the problem in terms of production as well as finance.

CSB

KENNEDY

RECEIVED

SEP 30 1939

TREASURY DEPARTMENT
Office of the Secretary
London, England

*Delivered to Reay at his home
by the Liaison at 4 pm Oct. 1, 1979*

212

~~SECRET~~
TELEGRAM NO. 1873, SEPTEMBER 30, 1939, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.

I saw Sir John Simon. I told him Mr. Morgenthau had noted with interest British selling of American securities on the New York stock market and was interested to know whether the British Government had arrived at any decision as to their plans for distribution of these securities on any large scale. Simon told me that one British concern had very substantial holdings of securities and had asked the Treasury for permission to dispose of them themselves because they felt they were in a better position to do it than the Treasury and in that case the Treasury had given permission. Simon said it was his intention to work very closely with Mr. Morgenthau and not to do anything that would affect the American market. He called in Sir Richard Hopkins, who has charge of this matter, and they said they realize the importance of getting their lists of securities in shape and then having a discussion with us as to just how they were to proceed, i.e. whether they were to sell the securities now, whether they were to try and make a loan on them, or just what methods they should adopt.

I pointed out that we might have a big market based on passage of the Neutrality Act, but after all it might be stopped by some act of Congress limiting profits and, in

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any event, I felt that the ordinary structure of the stock market in these days was very limited and that great care must be taken in addition to the well known item of perfect timing to get rid of the volume of securities that the British must have. Hopkins and Simon said they were in complete accord with this and would hasten their lists and plans, with the idea of submitting them to me very quickly. He mentioned also that not only did they want to work closely with us on the sale of securities, but also on the purchasing of war materials, but that was a matter that would be taken up later.

Montagu Norman came to my office yesterday morning after I had asked him to call; it would be putting it mildly to say that he is pessimistic. Norman stated that

"... the financial and economic situation as far as Europe is concerned is worse than tragic. England is busted now",

and then went on to say that it is the opinion of Sir John Simon and Treasury officials that the length of time that England could continue spending, before chaos hit the nation, would be three years; however, it is Norman's opinion that, at the most, it would be only two years. Furthermore, Norman says that, at present prices, Great Britain has about 600,000,000 pounds sterling of gold, and could get, from

securities

securities and other odds and ends, approximately about 400,000,000 pounds sterling. Norman several times spoke of borrowings. He was very vague as to where or by what means, however.

In reply to my questions about the possibility of a black bourse for pounds sterling, Norman said that since the Bank of England is not extending credit to neutrals at all, the size of the black bourse can be very substantial as long as neutral countries that have balances in England have doubts that the financial position of England can start weakening or that England may not ultimately be victorious.

The pound, subject to the above and general opinion, will remain around here for a reasonable length of time and then start to drop, he thinks.

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Norman believes that their securities first, and then gold, should be the order of cashing in England's assets.

As a result of the inevitable, the U.S. also will be

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Therefore England is finished as a real customer of the U.S. because she has no gold here and she is trading with what remains of her colonies and dominions; moreover, all the countries are living off themselves and bartering among ~~themselves~~ one another. In Norman's opinion, we will never live to see gold as world currency again; it will all be in our possession and nobody will have anything with which to buy it.

In summary, Norman believes that if this conflict lasts any great length of time, there will be no hope for the world; at any rate, at least none for Europe, he says.

KENNEDY

EA:MBG



DEPARTMENT OF STATE
WASHINGTON

October 1, 1939

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of a partial paraphrase of telegram no. 1873 of September 30 from the American Embassy, London.

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this
date
1/2/39
SWISS
M...*
(CONFIDENTIAL)

**TELEGRAM NO. 1873, SEPTEMBER 30, 1939, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)**

217

**PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.**

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KENNEDY

EA:NBG

SECRET

TELEGRAM NO. 1873, SEPTEMBER 20, 1938, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.

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KENNEDY

EA:RSG

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TELEGRAM NO. 1878, SEPTEMBER 30, 1939, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.

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KENNEDY

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[REDACTED]

TELEGRAM NO. 1273, SEPTEMBER 30, 1939, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.

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KENNEDY

EA:KSO

(MEMO)

TELEGRAM NO. 1873, SEPTEMBER 30, 1939, 1 p.m.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

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Montagu Norman came to my office yesterday morning after I had asked him to call; it would be putting it mildly to say that he is pessimistic. Norman stated that

'... the financial and economic situation as far as Europe is concerned is worse than tragic. England is busted now',

and then went on to say that it is the opinion of Sir John Simon and Treasury officials that the length of time that England could continue spending, before chaos hit the nation, would be three years; however, it is Norman's opinion that, at the most, it would be only two years. Furthermore, Norman says that, at present prices, Great Britain has about 600,000,000 pounds sterling of gold, and could get, from

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securities and other odds and ends, approximately about 400,000,000 pounds sterling. Norman several times spoke of borrowings. He was very vague as to where or by what means, however.

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The pound, subject to the above and general opinion, will remain around here for a reasonable length of time and then start to drop, he thinks.

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Therefore England is finished as a real customer of the U.S. because she has no gold here and she is trading with what remains of her colonies and dominions; moreover, all the countries are living off themselves and bartering among ~~themselves~~ one another. In Norman's opinion, we will never live to see gold as world currency again; it will all be in our possession and nobody will have anything with which to buy it.

In summary, Norman believes that if this conflict lasts any great length of time, there will be no hope for the world; at any rate, at least none for Europe, he says.

KENNEDY

EA:RND

[REDACTED]

TELEGRAM NO. 1873, SEPTEMBER 30, 1939, 1 P.M.
FROM THE AMERICAN EMBASSY, LONDON, ENGLAND.
(PARTIAL PARAPHRASE)

PERSONAL AND STRICTLY CONFIDENTIAL FOR THE PRESIDENT,
SECRETARY OF STATE AND SECRETARY OF THE TREASURY.

I saw Sir John Simon. I told him Mr. Morgenthau had noted with interest British selling of American securities on the New York stock market and was interested to know whether the British Government had arrived at any decision as to their plans for distribution of these securities on any large scale. Simon told me that one British concern had very substantial holdings of securities and had asked the Treasury for permission to dispose of them themselves because they felt they were in a better position to do it than the Treasury and in that case the Treasury had given permission. Simon said it was his intention to work very closely with Mr. Morgenthau and not to do anything that would affect the American market. We called in Sir Richard Hopkins, who has charge of this matter, and they said they realize the importance of getting their lists of securities in shape and then having a discussion with us as to just how they were to proceed, i.e. whether they were to sell the securities now, whether they were to try and make a loan on them, or just what methods they should adopt.

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KINNKDY

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~~SECRET~~

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KIMMIDY

EAKES

September 30, 1939
11:00 a.m.

HMJr: Hello. Hello.

Harry
Durning: Hello.

HMJr: Hello, Harry.

D: Yes. How are you this morning, Secretary?

HMJr: Fair. How are you?

D: All right. I'm a little bit tired. I was down at --
I was down in Washington yesterday and then I had
this six o'clock cutter and just got back here.

HMJr: My heavens!

D: Ah -- Jim Farley just called me up.

HMJr: Yeah.

D: And he said to talk to you - he said it was confidential
- that there was some information that you wanted about
Amtorg.

HMJr: Well, I hate -- I can't do this on the phone.

D: Yeah.

HMJr: I can't do it on the phone.

D: I see. All right.

HMJr: I'm afraid to.

D:5 Yeah. All right, fine. Well, if you want -- if you
want anything there let me know.

HMJr: Well can you get anything?

D: Oh, I think so.

HMJr: What?

D: I think so.

HMJr: You can.

D: I'll go to work on Monday and get it to you in some -- see what I can find.

HMJr: I'm on too many switchboards, Harry.

D: Yeah . All right, fine.

HMJr: Thank you.

D: Say.....

HMJr: Yes.

D:this newspaper fellow - that Lord - came in this morning.

HMJr: Who?

D: Oh, what's his name over there - this newspaper fellow in England?

HMJr: I don't know who you mean. Oh that -- oh, that Lord something?

D: Yeah, wait a minute.

HMJr: I know who you.....

D: Ah.....

HMJr: Rothmere?

D: Huh?

HMJr: Rothmere?

D: No, not Rothmere. I'll give you his name.....

HMJr: Northcliffe?

D: Ah.....

HMJr: Well anyway.....

D: I'll give it to you - Beaverbrook.

HMJr: Yes.

- 3 -

D: He -- he didn't give it to the newspaper reporters but he figures that the President is the only fellow that can straighten this situation out.

HMJr: I see.

D: And that's what he's over here on.

HMJr: I see. That's interesting.

D: Yeah, I thought you'd like to know it.

HMJr: O. K.

D: All right. Well, on this other thing, I'll see what's around on it.....

HMJr: Right.

D:and talk to you some other way.

HMJr: Thank you.

D: All right.

HMJr: Goodbye.

D: Goodbye.

TREASURY DEPARTMENT

252

INTER OFFICE COMMUNICATION

DATE September 30, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was dull today. Sterling ranged between 4.01-5/8 and 4.01-7/8 and closed at 4.01-3/4.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £399,000 from the following sources:

Commercial concerns.....	£ 50,000
Foreign banks (Europe and Near East).....	£ 299,000
Fed. Res. Bk. (£50,000 for Sweden).....	£ 50,000
Total	£ 399,000

Purchases of sterling amounted to £232,000 as indicated below:

By commercial concerns.....	£ 163,000
By foreign banks (Europe).....	£ 69,000
Total	£ 232,000

The banks also reported that the British Control purchased sterling amounting to £11,000 at the official rate.

The Bank of Latvia purchased 10,000 guilders in this market today.

The Bank of Latvia cabled to the Federal Reserve Bank to inquire under what conditions they would buy from them exportable gold held in London, giving in exchange exportable gold to be held in safe-keeping with the Federal Reserve Bank in New York. With the approval of the Treasury, the Federal Reserve cabled to the Bank of Latvia that the Secretary of the Treasury is purchasing gold at present only upon delivery in New York, on terms and conditions set forth in his statement of January 31, 1934.

The Russian State Bank cabled to the Federal Reserve Bank of New York stating that it wished to sell to or pledge with the Federal Reserve Bank of New York \$2,000,000 fine gold deposited now in the name of the Russian State Bank at Norges Bank, Oslo, against dollars. The Russian State Bank advised the Federal that they intended to use the proceeds for the payments through it for their purchases in the United States.

A similar answer, in regard to the purchase of gold, was given to the Russian State Bank as that given to the Bank of Latvia. With the respect to the pledge of gold, the Federal Reserve Bank informed the Russian State Bank that for some time past it has been their policy not to make advances against gold located outside of the United States.

- 2 -

The Federal Reserve Bank of New York has received a cable from the Norges Bank in regard to transferring \$3,500,000 of gold from London to be earmarked in New York. Similarly the Netherlands Bank is contemplating two shipments of gold, totaling \$5,000,000, from Cape Town for earmarking in New York.

B. W. R.

CONFIDENTIAL

TREASURY DEPARTMENT

254

INTER OFFICE COMMUNICATION

DATE September 30, 1939

TO: Secretary Morgenthau

FROM: Mr. Coahran

On September 8th we sold the State Bank of Russia \$2,250,000 of gold to be held under earmark for their account in New York. The Russians had asked for this gold "to provide payments for future purchases of goods in the United States". The Russian State Bank sold this gold back to us on September 27, without any explanation, and incidentally incurring an expense of approximately \$11,000 on their gold transaction. The dollar balance of the Russian State Bank with the Federal Reserve Bank on that date was \$316,000. The total after the gold had been sold was, therefore, a little above \$2,560,000. On September 28th the Russian State Bank withdrew \$1,000,000 from its account with the Federal, transferring it to the Chase Bank. A similar transaction in the amount of \$1,000,000 took place on September 29, leaving the total balance of the Russian State Bank with the Federal Reserve Bank at \$561,000 as of today.

After learning informally through the State Department that the Russians had been withdrawing balances from New York, I checked with Mr. Knoke on September 21st. He was informed by the Chase Bank that balances of the Russian State Bank with the Chase Bank had for the past several months averaged between \$4,000,000 and \$5,000,000. During the week ended with the 21st, these balances had risen by about \$2,000,000 to a total of \$7,000,000. They had then been reduced to \$1,500,000, as result of \$2,000,000 being transferred to Scandinavia, \$2,000,000 to the Amtorg and \$1,500,000 paid on local accounts.

On September 26th the balance with the Chase Bank was increased by \$500,000 to \$2,000,000, but \$1,000,000 thereof was blocked. This was due to the fact that American exporters who had up until two weeks previously done business with Russia on a credit basis, were changing to a cash basis. Consequently, the Chase Bank had been obliged to open credits to the exporters, and was following the practice of blocking equivalent amounts. On that date the Amtorg balance with the Chase Bank had risen rather suddenly to \$4,400,000, being up \$2,000,000 from a week previously. The funds used to augment this account had come from the Russian State Bank which, in turn, had been getting back money from Scandinavia and other parts of Europe. On September 28th the Chase Bank informed the Federal that they were being called on more frequently to certify Amtorg checks.

Yesterday the Federal Reserve Bank received a cable from the Russian State Bank stating that the latter wished to sell or pledge with the Federal Reserve Bank approximately \$2,000,000 of fine gold deposited now with the Norwegian Central Bank. The Russian Bank stated that it would use the dollar proceeds for payment through the Federal Reserve Bank for their purchases in the U. S. A reply was sent today that the Treasury is purchasing gold at present only upon delivery in New York and that the Federal Reserve Bank itself has for some time past followed the policy of not making advances against gold outside the United States.

H. M. R.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESSES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON

September 30, 1939.

255

*by Please get for me from Helvering
brief outline of closing agreement
on Colt case 11/21/39*

To: Secretary Morgenthau
From: Commissioner Helvering

*Tell you to continue
those working reports*

In re: Applications for Closing
Agreements - Vinson-Trammell Act

During the past week no new requests for closing agreements under the Vinson-Trammell Act were received. The only closing agreements received and under consideration are as follows:

Colt's Patent Fire Arms Manufacturing Co.,
Hartford, Connecticut,
Filed September 19, 1939.

Consolidated Aircraft Corporation,
San Diego, California,
Filed September 19, 1939.

With respect to the Colt's case, a conference was held on September 25 with representatives of the War Department regarding the possible terms of the closing agreement, and they were then informed that the War Department should send to the Treasury Department the required certification. This certification was received in the Bureau of Internal Revenue this morning (Saturday morning). On September 26 an all day conference was held with representatives of the Colt's Company regarding possible terms of the closing agreement. A closing agreement in final form has been drafted and is being submitted through the regular channels for transmission to the contractor for execution by the contractor.

With respect to the Consolidated Aircraft Corporation case, no further conferences were held this past week. Up to date the Navy Department has not made the required certification to the Treasury Department. (Representatives of the Navy Department clearly understand that such certification is necessary.) However, a preliminary draft of a closing agreement in this case has been drafted for purposes of discussion within the Bureau, so that work on a final draft can be done promptly when the certification is received from the Navy Department.

On September 29 a conference was held with representatives of the Bethlehem Steel Company regarding the additional facilities which that company will be required to install in order to carry out a proposed contract for armor plate. This is the first of the armor plate concerns to contact representatives of the Bureau with respect to closing agreements. It is expected that the Bethlehem Company will shortly decide whether they will file a request for a closing agreement. The Bethlehem Steel Company is considering three possible solutions which are as follows: (1) the closing agreement procedure, (2) the method outlined in I. T. 3289 (I.R.B. 1959-24, 15) relating to special facilities, and (3) the method available under the provisions of the Third Deficiency Appropriation Act (Public, No. 361, 76th Cong., 1st sess.) which permits the Navy Department to buy facilities and permit the contractors to use them to make armor plate.

You will be furnished with weekly reports, as per your suggestion, concerning applications for closing agreements under the provisions of the Vinson-Trammell Act.

APP

September 30, 1939.

To: Secretary Morgenthau
From: Commissioner Helvering

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 30, 1939, 2 p.m.

NO.: 151E

The following is confidential:

Today it was learned that the largest factory in Germany for canning milk has received orders that after it has used its present supply of tin (enough to carry on for about a month, it is estimated) it will no longer be permitted to produce tinned milk. The factory will be permitted to produce only such products as can be packed in non-metallic containers, such as powdered milk. Orally the factory manager was also informed that the whole output of his factory would have to be reserved for army use before very long.

It is requested that Treasury and Commerce be informed of the above.

KIRK.

For Publication

RECEIVED

SEP 30 1939

RECEIVED
OFFICE OF THE
ATTORNEY GENERAL
WASHINGTON, D. C.

EA:LWW

JS

September 30, 1939

To: The Secretary
From: Mr. Hanes

In connection with your interest in the Government procurement policy and the work you are having done by Harold Graves looking toward greater efficiency in Government purchasing, I have just been informed by a manufacturer of canned vegetables that the Army, Navy, Marine Corps, Coast Guard, CCC, Forestry Service, and Veterans Bureau, all buy their canned goods separately and in small quantities. It was his impression that the method could be greatly improved. I do not know whether or not you will want to pass this along to Graves, but I am passing it on to you for whatever action you may wish to take.

JWH

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

261

DATE September 30, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

Since Mr. Knoke's friends in the Chase were absent, he was not able to obtain until 12:45 the following data:

Russian State Bank balances with Chase

Thursday \$2,200,000

Today \$3,200,000

Antorg balances with Chase

Thursday \$2,100,000

Today \$1,300,000

B. W. R.

MJD

GRAY

PARIS

Dated September 30, 1939.

Rec'd. 12:40 p. m.

Secretary of State,
Washington.

2259, September 30, 2 p. m.

FOR THE TREASURY.

Our telegram 2148, September 23, 1 p. m. Journal Official today publishes an arrêté providing the mechanics of application of the transshipment bond covering transit merchandise found on ships in French waters. Such bond will only be required in cases considered necessary in the discretion of the contraband committee. If the bond is required it will only be released upon presentation of a certificate furnished by the French Consul at the point of destination of the merchandise three months after arrival attesting that the goods were delivered for consumption in the interior of that country and that they have not been re-exported directly or indirectly processed or unprocessed to an enemy country or country occupied by the enemy. The certificate is to be returned to the issuer of the bond five months from the date on which the guaranty was given.

BULLITT

CSB

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GRAY

BERLIN

Dated September 30, 1939

Rec'd 9⁴⁵.m.

Secretary of State,
Washington

1512, September 30, noon.

Official Gazette September 28 publishes two decrees issued by German Army Command which today's press characterizes as designed to restore the monetary and credit system in German occupied Poland. First decree dated September 11 and establishes the Reichsmark and the zloty jointly as legal tender in the occupied district at the fixed exchange rate of 1 zloty equals 50 pfennigs which compares rather closely with the Bourse rate of August 1 when 1 zloty equaled 47 pfennigs.

The second decree dated September 23 establishes an institution entitled "Reich Kredit Kassen" (Reich's Credit Office) which, from the description of its powers and functions, will act as the central bank for the German occupied territory apparently supplanting the Bank Polski, the fate of which is not, however, mentioned in the decree. The credit office is to issue currency known as Reich's credit kassenscheine (Reich credit office certificates) in denominations

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denominations as high as twenty marks which will be legal tender throughout the occupied territory, with the significant exception of Polish Upper Silesia, in which the credit office will not function. The above exception would seem to indicate that Polish Upper Silesia is shortly to be entirely integrated into the German banking and monetary system. The certificates of the Reich Credit Office are not legal means of payment within the Reich but can be exchanged at the official rate at all German banks. A significant provision of the decree is that the credit office shall grant the Reich credits "up to one billion Reichsmarks for use in the occupied area."

It is to be noted that the Reichs Kredit Kassen established by the decree was into actual existence at a meeting held on September 26. The board of directors of the new institution is made up as follows: Reichsbank President and Economics Minister Funk, the administrative head of the Reichsbank Director Kratzschmann. The Reichsbank also nominated Doctor Otto Christian Fischer formerly head of the Kredit Gesellschaft and now president of the banking group of the Reich. The Economics Ministry is represented by Lange and the Finance Ministry by Boyneffer. It is contemplated that the institution will open fifteen branches in Poland. Repeat to Treasury.

PEG

KIRK