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AC

C AY

Paris

Dated November 23, 1939

Rec'd 6:17 p.m.

Secretary of State

Washington

2812, November 23, 6 p.m.

FOR THE TREASURY.

The Bank of France statement for the week ended November 16 published today shows a further increase of 900,000,000 francs drawn on the 25,000,000,000 authorized advance account of the Treasury making the total to date 9,600,000,000. Commercial advances were down 990.5,000,000 to a total of 5,509,000,000.

Note circulation decreased 67,000,000 to a total of 146,654,000,000. Ratio of gold cover to demand liabilities decreased again slightly from 59.75% to 59.68%.

The securities market was somewhat weak in light trading. Rentes were subject to profit taking and most issues were down minor fractions. The exchange guarantee issues of 1925 and 1937 lost 1.10 and 2.45 respectively.

RECEIVED

BULLITT

DDM
NOV 24 1939

RECEIVED
NOV 24 1939
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

NOV 24 1939

My dear Mr. Secretary:

Receipt is acknowledged of your letter of November 18, 1939 (file EA 740.00111A-Financial/9), relative to the expiration of the President's Regulation Concerning Credits to Belligerents and the termination of the work of the advisory committee. The letters referred to in our letter of November 10, 1939, are being mailed at this time.

This Department will be glad to participate with the State, Justice and Commerce Departments in a discussion of the action to be taken relative to inquiries concerning the financial provisions of the Neutrality Act of 1939.

Very truly yours,

Acting

John C. Moore
Secretary of the Treasury.

The Honorable

The Secretary of State.

JWP:BBneu
11/21/39

*initialed: JWP - BB - DBB - AWC - ETP - RPA
Bill - 20 AT*

My dear Mr. Secretary:

Reference is made to the Department's letter to you of September 7, 1939, relative to the formation of an advisory committee to consult with the Department concerning the administration of the provisions of the Regulation Concerning Credits to Belligerents, signed by the President on September 6, 1939.

The enclosed press release of the Department of State calls attention to the fact that such regulation, as amended, expired on November 4, 1939, with the approval of the Neutrality Act of 1939.

With the termination of the work of this advisory committee I wish to express my appreciation of the cooperation of your Department and the officers thereof who worked with such committee.

Very truly yours,

W. M. C. ...
Secretary of the Treasury.

The Honorable,

The Secretary of Commerce.

Enclosure

JWP:agt 11/14/39

11-14-39 JWP:agt

NOV 25 1939

My dear Mr. Secretary:

Reference is made to the Department's letter to you of September 7, 1939, relative to the formation of an advisory committee to consult with the Department concerning the administration of the provisions of the Regulation Concerning Credits to Belligerents, signed by the President on September 6, 1939.

Your press release, a copy of which was enclosed in a letter from Dr. Feis, dated November 22, 1939, calls attention to the fact that such regulation, as amended, expired on November 4, 1939, with the approval of the Neutrality Act of 1939.

With the termination of the work of this advisory committee I wish to express my appreciation of the cooperation of your Department and the officers thereof who worked with such committee.

Very truly yours,

Herbert E. Guston

Secretary of the Treasury.

The Honorable,

The Secretary of State.

JWP:mg 11/24/39

initialed: JWP - BB - DWB - HMC - EHF - Bell

NOV 22 1939

Dear Mr. Eccles:

Enclosed for your information is a copy of a letter this day sent to the Federal Reserve Bank of New York relative to the expiration on November 4, 1939, of the President's Regulation Concerning Credits to Belligerents, approved September 6, 1939, and amended September 11, 1939. Similar letters are being sent to all the other Federal Reserve banks.

Very truly yours,

(Signed) John W. Hanes
Acting Secretary of the Treasury.

Hon. Harriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

Enclosure

JWP:agt 11/21/39

Initials: JWP - AB - HMC - PWB - EAFH - HA - Bell

NOV 2 1939

Dear Mr. Harrison:

Reference is made to the Department's letter to you of September 12, 1939, relative to the President's Regulation Concerning Credits to Belligerents, approved September 6, 1939, and amended September 11, 1939.

Enclosed is a copy of a press release of the Department of State calling attention to the fact that such regulation, as amended, expired on November 4, 1939.

This Department appreciates the cooperation rendered by your bank in connection with this matter.

Very truly yours,

(Signed) John W. Hancock

Secretary of the Treasury.

G. L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

Enclosure.

initials: JWP - BB - BCB - HMC - 2477 - 24-12-1

DEPARTMENT OF STATE

FOR THE PRESS

NOVEMBER 20, 1939
No. 611

Acting Secretary of State Sumner Welles today called attention to the fact that the President's Regulation Concerning Credits to Belligerents, dated September 6, 1939, and amended September 11, 1939, which was issued under the Act of May 1, 1937, expired on November 4, 1939, with the enactment of the Neutrality Act of 1939, which repealed the Act of May 1, 1937.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 24, 1939

TO Secretary Morgenthau
FROM W. H. Hadley

CASH FINANCING

The longest maturity which can be issued on a straight $3\frac{1}{2}\%$ bond would be 11 years, on the basis of today's market which was somewhat easier. However, the "street" gives definite indications of preference to a $3\frac{1}{2}\%$ 9-11 year callable bond and does not appear to like a straight bond over a 10-year maturity.

On a dollar-and-cents basis to the Treasury, a 9-11 year $3\frac{1}{2}\%$ issue would cost no more than a straight $3\frac{1}{2}\%$ 11-year issue and would allow more flexibility for subsequent repayment or refunding. A 9-11 year bond could be called at the end of 9 years if a saving in interest at that time was possible or it could run to the full 11-year maturity.

The fact that the "street" is talking so much about a $3\frac{1}{2}\%$ 9-11 year issue would insure that this issue would go very satisfactorily.

NON-CALLABLE BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
10 years 6 mos. (6/15/50)	2%	1.83 1.86	100 100	101.20 101.11	1 pt. 20/32 1 pt. 11/32
** 11 years (12/15/50)	2%	1.87 1.91	100 100	101.10 100.29	1 pt. 10/32 29/32nds
11 yrs. 3 mos.) (3/15/51)	2%	1.90 1.93	100 100	101. 100.23	1 point 23/32nds

CALLABLE BONDS

8½ - 10½ yrs. (6/15/48-50)	2%	1.82 1.84	100 100	101.14 101.8	1 pt. 14/32 1 pt. 8/32
9 - 11 years (12/15/48-50)	2%	1.86 1.88	100 100	101.5 101.	1 pt. 5/32 1 point

** Note: Longest straight 2% bond on basis of today's market.

November 24, 1939.

TO: Secretary of the Treasury.

FROM: D. W. Bell.

The market this morning went off as much as 10/32 on the long bonds, but recovered by noon as much as 1/32 to 3/32. It appears to be a typical prefinancing market with no volume, and the dealers just marking time waiting for your announcement. I am told that the news from abroad has not materially affected this market.

Mr. Rouse and I have conferred with a number of the dealers during the morning and the general sentiment is that anything in the ten-year period will go and go well. There was only one dealer who thought that we should go beyond that period, and that was Mr. Levy of Salomon Bros. & Hutzler, who recommended an eighteen-year 2 1/2% bond. All of the other dealers contend that anything beyond ten or eleven-year period would present a redistribution problem and probably have an adverse effect upon the market.

Most of the dealers preferred two separate operations in the cash and refunding issues. There were, however, two or three who suggested that we do both together. Mr. Repp of the Discount Corporation recommended a combination cash and refunding operation, but I believe that he had some doubts about the wisdom of actually doing it. Bob Garner of the Guaranty Trust Company recommended two operations, but said that if we were going to have a cash offering the first of next week and follow it within ten days with a refunding offer, he would recommend that we do both at once. He thought that it would take more than ten days for the market to digest the \$500,000,000 cash offering.

November 24, 1939.

Chris. Devine said that this market is not nearly as strong as it appears on the surface. He said that he would offer cash next Monday, and would give the subscribers a choice of a bond and a note. He said a 2% 1948-50 is too attractive for a \$500,000,000 offer, but it is not too attractive if you refund the March maturities at the same time. He feels that there isn't any sense in the Treasury taking an unnecessary chance in trying to handle the cash and refunding all at once. Upon questioning by Mr. Sproul, he finally agreed that the \$500,000,000 in cash need not be split between a bond and note and that it could be offered on a basis of a 2% bond maturing in 1950 or 1951.

A popular issue would be a 2% bond with a definite maturity date, some place in the 1950 area. Although a bond with an optional call date would go and go well, yet as usual, the banks prefer the definite maturity.

Summing it all up, most of the dealers with whom we talked felt that a 2% bond for the cash offering, maturing around the 1950 area, which would sell on a ~~yield~~ basis of about 1 1/4 to 1 1/2^{premium}, would be the most popular issue the Treasury could put out. It is felt that an issue of this kind would tone the market, be satisfactory to the banks as well as the insurance companies, and might even have the effect of opening up the capital markets to ^{private} ~~public~~ financing.

sub Bill



TREASURY DEPARTMENT
WASHINGTON

12

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESSES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

November 24, 1939.

REPORT FOR SECRETARY MORGENTHAU:

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

De Laval Steam Turbine Company

No word has been received from the Navy Department. Case is held in the pending file.

The Midvale Company

A certificate dated November 22, 1939 was received from the Navy Department on November 22, 1939, and the case is now under active consideration by the Bureau engineers.

Camden Forge Company

Following discussion with the Bureau engineers by the Treasury Interdepartmental Committeemen, the case is held in the pending file awaiting receipt of a certificate or other communication from the Navy Department.

Consolidated Aircraft Corporation

This case is under active consideration. The contractor filed two letters on November 20, 1939, bearing on its alleged inability to borrow money for the purpose of investing in the additional facilities under consideration.

Inquiries for information:

There have been no new requests for information in regard to Vinson-Trammell Act matters.

While this report does not relate to closing agreements purely under income tax procedure, it appears proper to state, at this point, that recent newspaper reports referring to an alleged consideration by the Treasury of a policy of special tax treatment of armamakers motivated a call upon the Treasury Interdepartmental Committeemen by the Pratt and Whitney Division, United Aircraft Corporation, with an oral request for information relative to a closing agreement dealing with excess facilities required under a contract with the French government for airplane engines. The Treasury Interdepartmental Committeemen reported the interview by the usual memorandum on the date of interview. No explanations or commitments were made. The taxpayer will probably file a request for a closing agreement.


Acting Commissioner.

HSM

PLAIN

London

Dated November 24, 1939

Rec'd 1:32 p. m.

Secretary of State,
Washington.

2448, November 24.

FOR TREASURY.

1. The Bank of England return revealed a £14 million reduction in bankers' deposits, the increase in public deposits of £18 1/2 million (in preparation for war loan interest disbursements on December 1) being only partially offset by increases in securities in the banking department totalling £2.4 million, while the note circulation declined by £639,000. The reduced bankers' deposits tended to firm discount rates but today's tender rate for treasury bills averaged only a shade up on last week being £1.3.11.46d. as compared with £1.3.8.0ld. last week. The lowest bids received 60 percent allotment, applications totalled £106 million next week's offering is for £65 million.

2. A new consolidated defence (finance) regulation announced in the press amends previous orders respecting the new capital issue control. Another regulation gives
the

ham -2- No. 2448, November 24, from London

the British Treasury power to acquire by purchasing foreign currency or gold seized or which ought to have been offered to the Treasury for sale.

3. A circular issued by the Bank of England has reached foreign exchange dealers and bankers reminding them that relevant documents must now be produced in connection with applications under form E. 1 (application for transfer of sterling to foreign account) in the same manner as in the case of applications for form E (application for foreign exchange) the purpose being to reduce the amount of sterling going through to the free market in New York.

KENNEDY

DDM
JTM

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NOV 25 1953

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20540

CJ

GRAY

PARIS

Dated November 24, 1939

Rec'd 6:14 p.m.

Secretary of State,
Washington.

2810, November 24, 6 p.m.

FOR THE TREASURY

The JOURNAL OFFICIEL dated November 23 carries a decree containing the first measure (dated November 2) for putting into effect the recently announced Franco-British decision to totalize their war purchases. This decree sets up a "special Committee of Programs and Allied Purchases" which will undertake to work out a schedule of the French end of such purchases. The explanatory memorandum states that "this committee will be charged with coordinating the action of French Ministerial Department in the drawing up of their import programs covering the total needs of the country taking into consideration the necessities resulting from the limitations on national production".

(END SECTION ONE)

BULLITT

NPL

lw

GRAY

17

Paris

Dated November 24, 1939

Rec'd 6:42 p.m.

Secretary of State

Washington

2818, November 24, 8 p.m. (SECTION TWO)

The committee will "adjust these programs to economic and financial possibilities and set up the necessary priorities as between the requirements of the different departments". The permanent membership of the committee consists "Article One" of the Prime Minister, the Minister of Finance, the Minister of Agriculture, the Minister of Public Works and Transport, the Minister of the Navy, the Minister of Air, the Minister of Commerce, the Minister of Armament, the Minister of Merchant Marine, the Minister of Blockade, and the High Commissioner of National Economy. Other ministers may be invited to sit in where consideration of products properly falling within their jurisdiction comes into discussion. (END SECTION TWO).

BULLITT

NPL

CJ

SPAY

PARIS

Dated November 24, 1939

Rec'd 6:37 p.m.

Secretary of State,
Washington.

2818, November 24, 5 p.m. (SECTION THREE).

Article Two states: "The committee is charged with coordinating and drawing up on the basis of proposals submitted to it by the different ministers programs of purchases abroad which must thereafter be transmitted by these ministers to the Franco-British Executive Committee. To this end the ministers shall submit to the Committee of Programs and Allied Purchases their schedule of imports based on the availability of resources in France, the possibilities of national production, and in general supported by all data which will permit the committee to decide upon the necessity or the urgency of the purchases to be made abroad".

Article Three stipulates that:

"In case circumstances require the reduction or the modification of national or allied programs, it will be its (the committee's) duty to decide the adjustments which should be made between the different ministerial programs and to establish between them the desirable priorities and in general

-2- #2818, November 24, 6 p.m. (SEC THREE) from Paris
general to propose to the government all measures which
should be taken in consequence thereof".

(END SECTION THREE)

BULLITT

NPL

CJ

GRAY

PARIS

Dated November 24, 1939

Rec'd 6:20 p.m.

Secretary of State,
Washington.

2016, November 24, 6 p.m. (SECTION FOUR)

In Article Four it is stipulated that where the committee judges a government decision necessary such questions will be submitted to the Council of Ministers. The Secretariat General of the Committee will function in the Ministry of Finance. The Secretariat is to keep track of French and British purchasing missions abroad in order to avoid duplication and to assimilate in liaison with the President of the Committee Franco - British coordination and the most effective utilization of the French personnel of these missions. The Secretary General is to be named by an arrêté of the Prime Minister and the Minister of Finance. We understand that Roger Auboin is to be appointed to that post (our telegram No. 2714, November 10, 2 p.m.) and that complications arising out of his position with the B.I.S. were one reason for the delay in promulgating this decree.

(END SECTION FOUR)

EJL:ITT

NPL:EMB

PARAPHRASE OF SECTIONS FIVE, SIX, SEVEN, EIGHT
AND NINE FROM THE AMERICAN EMBASSY AT PARIS,
NO. 2818, NOVEMBER 24, 1939.

This morning when Professor Rist came to see the Ambassador, he told us that the purpose of this committee will be to find out exactly the amounts of certain products which various industries will need; in this way it will be possible for the committee to furnish information to the joint Franco-British commodity committees regarding the total amount of each of such products which France will need to import. Presumably similar measures will be taken by the British. Then a survey will be made of world sources of these commodities. Then, of course, the amounts that can be purchased will be taken from the Empires of France and Great Britain or from the sterling area unless in order to conserve the foreign exchange resources of the allies purchases elsewhere are made imperative because of political considerations. Another important factor in deciding where commodities will be purchased is the question of available transportation. (According to Rist and others--including Couve de Murville, as stated in our telegram no. 2768 of November 16, 4 p.m.--British anxiety is increasing with reference to such foreign exchange resources from the standpoint of British prestige in the period which will follow the war as well as from the standpoint of carrying on a long war.) We were told by

Rist

-2-

Rist that although the plan for Franco-British coordination was very important and it was not his desire to underestimate it, at the present time it still is for the most part only on paper and it is ^{his} feeling that at the beginning people should not expect too much of it from the broader point of view.

We inquired of Rist with reference to the importance of Great Britain's stopping of German maritime exports. He replied that these exports were very important to Germany and undoubtedly she was doing everything possible to maintain them, particularly for potash and chemicals. That it was possible to exaggerate the real war value of this measure, was admitted by him, however. In this connection he referred to a previous statement made by him (third paragraph of our telegram no. 2587 of October 26, 7 p.m.) to the effect that he was very much in hopes that German products would be partly replaced by American exports to the Balkans (which, of course, it would not be possible to close to German exports by means of a blockade). He stated with reference to this matter that his Minister of Blockade had been surprised that he should encourage us to compete with French exports. He had pointed out, however, that normally United States trade with the Balkans is very small and that probably any gains the United States made in that area would last only during the war and that
after

after the war the French and British would be able to regain their former position because of transportation costs and other factors. With reference to German exports of potash, incidentally, Rist told us that the cartel's German members had tried to get the British and French to allow these exports to continue, arguing that by means of the funds obtained from these exports payments on British and French credits of certain cartel indebtedness could be continued. Rist added that 'of course we vetoed the suggestion'. However, the cartel has apparently not been entirely done away with and in a small way it is continuing to function. He said that France could supply all the potash requirements of the neutrals unless, of course, the Alsation mines were bombed by the Germans.

In the same Journal Officiel there was another decree published which provides that a declaration of stocks must be made to the Minister of Agriculture by all those who hold supplies of animal or vegetable oils and fats, whether these supplies are in the form of raw materials or in the form of finished products.

In the securities market there was an early weakness on further profit-taking but the market firmed and the majority of issues closed up for the day. On the average there were fractional advances in rentes. Royal Dutch and other Amsterdam issues were heavy. (END OF MESSAGE)

EA:EB

BULLITT

CJ

PLAIN

LONDON

Undated

Rec'd November 24, 1939

7:06 p.m.

Secretary of State,
Washington.

Embassy's 2431, November 22, FOR TREASURY, last sentence in second paragraph should be changed to read: The saving certificates are cashable at any time but the defence bonds are not (immediately) cashable (six months notice being required) except in the case of "private emergency", etc., etc.,

KENNEDY

NPL

NOV 24 1939

RECEIVED
NOV 24 1939
U.S. DEPARTMENT OF STATE

"The Inter-American bank projectThe Review of the River Plate, Buenos Aires, November 24, 1939

At the current Guatemala conference of the representatives of the Finance Ministers of the different American republics, the proposed establishment of an inter-American bank, or, as it might be styled, a Bank of Inter-American Settlement, was submitted for discussion by the Mexican delegation. Wisely, the conference agreed to refer the matter to the permanent inter-American consultative committee in Washington for examination. The idea of an inter-American bank has for long lain in the lumber-room of Pan-American affairs. Occasionally, during the past fifty years it has been dragged out into the common light of day, only to be ignominiously restored ere long to the dust and obscurity of neglect. We fear that the circumstances of its latest public appearance are no more propitious than hitherto. It is true of course that Pan-Americanism has of late derived a considerable impetus from the European conflict. That there exists a will towards the achievement of a high degree of inter-American collaboration is manifest everywhere throughout the continent at the present time. And yet many of the recent, widely heralded pronouncements on the subject seem on close scrutiny to lack the substance of reality.

The establishment of a permanent inter-American financial and economic committee was the real achievement of Panama. Through the good faith and harmonious cooperation of its members, fully supported in their task by their respective governments much may be done in the direction of real Pan-American unity. The initial and early labours of the Washington committee however, may not be concerned with anything so spectacular as the premature founding of a great inter-American bank. When the need for such an institution really arises, an important stage on the road towards conditions of complete economic harmony on the American continent will have been reached. That stage is not yet in sight.

November 24, 1939
9:18 a.m.

26

Operator: Hello.

Mrs. Klotz: The Secretary wants Foley, Hanes, and who else?

HMJr: George Haas and Cochran.

K: Cochran.

O: All right.

K: And I want to be on.

O: Right.

(Brief pause.)

O: Go ahead.

Ed Foley: Hello.

HMJr: Hello, Ed?

F: Good morning, Mr. Secretary.

HMJr: Where are you?

F: I'm home.

HMJr: Good for you.

F: I was just leaving when they called and said that you wanted to talk.

HMJr: Yes. The more I've thought about this thing the more I am disturbed that the Attorney General is considering making a settlement with Mr. Annenberg.

F: Well, I don't think it's as bad as that, Mr. Secretary, because the only thing that they're talking about now is an outright, unconditional plea of guilty, which they'd have to take if he offered it, and he really hasn't offered it.

HMJr: Let me understand this thing. As far as I am concerned, there's no difference between Annenberg and Capone.

- 2 -

F: Right.

HMJr: Capone went to jail.

F: Right!

HMJr: Now if -- my position is unalterably opposed to any deal that will do anything other than let the courts decide whether Mr. Annenberg should go to jail.

F: Right!

HMJr: Now, I -- I feel this thing very strongly. Just because Annenberg has millions and some other poor sucker only has a few hundred dollars, that the poor fellow has to go to jail but Mr. Annenberg can buy his way out. And I will not be any party to it.

F: Right.

HMJr: And I will protest, first to Mr. Murphy, and second to the President.

F: Right.

HMJr: Now, when I took the former Attorney General over to see the President on the Smith case in Los Angeles, Mr. Smith went to jail - he didn't come to Washington.

F: (Laughs) Well.....

HMJr: Now, I want you to know where I stand.

F: Well, I think I know where you stand, sir.

HMJr: I want -- and I hope you're with me.

F: I'm with you a hundred percent.

HMJr: And I think if they let this Annenberg buy his way out it'll be the worst black eye that has happened to the Administration.

F: Well, I agree with that a hundred percent. I talked with -- with Bill Campbell on -- on Wednesday afternoon, and he realizes that just as well as we do. He says that he's -- he's ruined out there in Chicago unless he goes to the penitentiary, and he isn't going to be a party to anything.....

HMJr: Well, what.....

F:that doesn't result in his going to the pen.

HMJr: Well, what's all this dickering about?

F: Well, the dickering is to nol. pros. the case against Walter Annenberg, Annenberg's son, on condition that Annenberg take a plea of guilty and take a sentence from the judge.

HMJr: Well, just as long as you know where I stand, and I want ample opportunity to protest to the Attorney General, and to the President, if there's going to be any dicker.

F: Yes. Well, Weymouth - Weymouth Kirkland, Annenberg's lawyer, was in on -- on Tuesday and spent all day with the department, and while I think he was trying, and perhaps there was a chance with the Attorney General, to work out a deal last week - I think that Bill Campbell stiffened them up and I don't think there's any chance now that they're going to try to work out any kind of a deal that would not result in Annenberg going to the penitentiary.

HMJr: Well, I -- now, what I'm -- what I'm -- putting on you the responsibility to see that I, as Secretary of the Treasury, get ample opportunity to protest before any deal is made.

F: Yes.

HMJr: Now, will you accept that responsibility?

F: Yes, sir.

HMJr: What?

F: Yes, I'll accept that responsibility.

HMJr: That I don't want to be told later on, "Well, if I'd only had time I could have protested."

F: Right.

HMJr: Because I don't want to be part of any administration just because a fellow has got millions he can buy himself out.

- F: Right. Well, Sam asked me -- Sam Clark asked me how the thing struck me, and I told him, of course, I had to have a chance to talk with you and I didn't think we could have a chance to discuss this until sometime next week.
- HMJr: Well, you've talked to me now - you know how I feel.
- F: Yes, and I told him that I thought that your position would be that unless Mr. Annenberg went to the penitentiary, you wouldn't be interested in anything.
- HMJr: Well now, wait a minute, let's understand each other. I want the judge to decide whether he should go to the penitentiary.
- F: Well, he's the only one that can decide that.
- HMJr: I mean, that's all that I -- I want the judge -- I want the jury and the judge to decide.
- F: Well, of course, if they took a.....
- HMJr:
- F: If they took.....
- HMJr:
- F: If they took a -- if they took a plea of guilty, the judge would determine the sentence.
- HMJr: Well, that's all right.
- F: And this judge is a tough judge. He's the same fellow that sent Capone away.
- HMJr: Well, do you get the point? I don't -- the point is, I want -- I want the courts to decide whether the man -- what -- what his punishment should be.
- F: Absolutely.
- HMJr: And not the Department of Justice on behalf of the Treasury.
- F: Right.
- HMJr: That's all I'm saying. I'm not.....

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- F: Well, the.....
- HMJr: I'm not saying he should go to the penitentiary or not, but I want the courts to say it.
- F: Well, if -- if the judge has a chance to say so, I think from what Bill Campbell tells me, he'll go to the penitentiary.
- HMJr: Well, that's -- like all of these things - I don't try my cases in the newspapers and I don't want to be any part or parcel of any stink.
- F: Right.
- HMJr: So you know where I stand, and the sooner you get that over to the Justice, the better.
- F: Well, I -- I think they understand that.
- HMJr: What?
- F: I think from what I told Sam Clark on Wednesday that they -- they haven't any other impression.
- HMJr: Well, you can fortify it now a hundred percent.
- F: All right. I'll call Sam.
- HMJr: All right.
- F: Well you'll see -- when I show you the letter that I sent to Eddie Greenbaum and to Knollenberg on the movie cases, I think you'll see that I see eye to eye with you on these things.
- HMJr: Good.
- F: Because that's a pretty -- that's a pretty tough letter that I've written.
- HMJr: All right. Now, does Hanes know anything about this?
- F: No, sir.
- HMJr: Well, you better tell him and you can tell him what I said. and
- F: All right.

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HMJr: See?

F: Right.

HMJr: Because I don't want to tell him and then he'll say, "Well, why didn't Foley tell me?"

F: O. K.

HMJr: So you can tell him, and tell him just what I said.

F: All right. Bill Campbell told me that he didn't think that Annenberg would agree to anything and that the case probably would go to trial, and Sam Clark -- Sam Klaus went back out with Bill Campbell yesterday to get ready for a motion in the case that will come up on Monday.

HMJr: O. K. Well, I wish you'd let them know today where I stand.

F: All right. I'll tell them, Mr. Secretary.

HMJr: Now, one other thing.

F: Right.

HMJr: When I left, Hanes got me to get the President to sign a memorandum addressed to me, the purpose of which was to increase the aeroplane motor production by 5 or 6 thousand motors a year, and Hanes said something to me -- he said discussing the legal part of it with you?

F: No, he hasn't mentioned it to me, Mr. Secretary.

HMJr: I don't understand that. Well, I'm going to tell him I want a formal report on it Monday.

F: All right. I haven't heard anything about it from Hanes.

HMJr: He told me he had been discussing it with you and that the Vincent Tramel Act looked as though on the foreign purchases that they could write-off.

F: Well, he hasn't mentioned it to me. I think that they had a meeting with Guy Helvering and Sullivan and Phil Wenchel one day last week.

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HMJr: Yeah.

F: But -- but he didn't ask me to go to the meeting and he hasn't discussed it with me.

HMJr: Well, I'm going to ask him to give me a formal report on it Monday.

F: All right.

HMJr: O. K.

F: All right, sir.

HMJr: Goodbye.

F: Goodbye.

(Brief pause)

Operator: Mr. Hanes.

HMJr: Right.

O: Go ahead.

John
Hanes: Hello.

HMJr: Hello.

H: Good morning, Henry.

HMJr: How are you?

H: I'm fine, thank you. How are you?

HMJr: I'm good. Where are you?

H: I'm at the office.

HMJr: Johnny.....

H: Yes, sir.

HMJr: Two things that I'd like to have from you.

H: Yes, sir.

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HMJr: One, a report where we stand on that deal with the Chinese on tin.

H: Yes, sir.

HMJr: Could I have that Monday, wherever it stands?

H: Yes, sir. It.....

HMJr: Two, wherever we stand on this thing -- the President's memorandum the day I left in regard to increasing aeroplane engines.

H: Yes, sir. I've got.....

HMJr: Wherever the two things stand, I'd like to have it from you on Monday.

H: I'll give it to you.

HMJr: I'd appreciate that.

H: Well, the Chinese thing, we haven't -- we haven't made any real progress with the Chinese thing, but we've made real progress with the -- with the other one.

HMJr: Well, sometime Monday you and I can sit down and go over it.

H: All right, fine.

HMJr: On -- on those two and I'd like to have some sort of -- something in writing so we know where we're at.

H: All right, fine. Is there anything -- any other thing you want?

HMJr: No. I've been talking to Foley about the Annenberg matter and I told him to talk to you.

H: Yes, sir.

HMJr: And he tried to talk to me as I was leaving the other day and I was in too much of a hurry.

H: Yes.

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HMJr: And then I got to thinking about it. The more I thought about it the more I got upset over it.

H: Yes.

HMJr: And I just told him -- I mean, he hasn't had a chance to talk to you because I was only half listening on Wednesday.

H: Yes.

HMJr: But my position is this - that I won't have anything to do with any fixing that the Department of Justice may want to -- with Annenberg.

H: Yes, sir.

HMJr: And I say that I want the courts to decide what the man's sentence is and not somebody in the Department of Justice.

H: Right.

HMJr: See?

H: Yes, sir.

HMJr: And I'm sure you'll agree with me on that.

H: I do agree with it. Well, I hadn't heard anything about the Annenberg. I thought that was out of our bailiwickwork. I thought they had already indicted him.

HMJr: I only half listened on Wednesday so there was no chance for a consultation, but the more I thought of it, the more I felt that I want the judge and the jury to decide what Annenberg's penalty is and not somebody over at Justice.

H: Right.

HMJr: What?

H: Right.

HMJr: I mean, as far as I can go in the matter.

H: Yes.

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HMJr: And so I think -- well, I told Foley -- Foley will bring you up to date on it, but I feel terrifically strongly on that.

H: O. K. Fine, I'll talk to Ed about it this morning.

HMJr: Right. Now, anything that you've got for me?

H: I -- not a thing -- there's a -- Pearson and Allen had a statement this morning in the paper about Jimmy Roosevelt, which was a pretty damaging one.

HMJr: In regard to what?

H: About the -- his monkeying with this west coast business.

HMJr: I didn't see it.

H: The Giannini.....

HMJr: The office will send it up to me.

H: What?

HMJr: I haven't seen it.

H: Well, I'll see that they do send it up to you.

HMJr: Will you have it mailed to me?

H: Yes, sir.

HMJr: No, I didn't see it. Is it complimentary to Jimmy.

H: Not very, no. It just tells about his getting his mother out to lunch with him on the coast and then arranging for him to come on here and so forth. But not very complimentary to him.

HMJr: All right, Johnny. I'll call up again around 12:30 and that'll be all today.

H: All right, fine, Henry.

HMJr: But if you can have those two things for me -- did you get over your headache?

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H: Yes, sir. I feel fine.

HMJr: 'Attaboy.

H: I -- I slept until 12:00 o'clock yesterday.

HMJr: What?

H: I say I slept until 12:00 o'clock yesterday and then I came down here to the Treasury and worked in the afternoon. Had a good long sleep.

HMJr: Well, that isn't a very good way to give thanks.

H: Well, I -- that's a good way to -- as any, I guess. It was quiet here in the Treasury and I got a lot of work done.

HMJr: O. K.

H: Well, I'll see you Monday?

HMJr: Yeah, I'll be back Sunday night.

H: All right. Fine, Henry.

HMJr: Goodbye.

H: Goodbye.

(Brief pause)

Operator: Mr. Haas. Go ahead.

George Haas: Hello.

HMJr: Hello.

H: Good morning, Mr. Secretary.

HMJr: George, good morning. Where are you, at home?

H: No, I'm at the office.

HMJr: Oh.

H: Just got in.

HMJr: I wish on Monday you'd give me an estimate - you might want to work with -- well, you can do it -- all of this talk about the 45 million dollar limit.

H: Yeah.

HMJr: How far -- how long we could go, and supposing Congress doesn't raise it, what other devices have I at my disposal.

H: To get money.

HMJr: Yeah.

H: Uh-huh.

HMJr: See?

H: Yeah.

HMJr: Make a little study and have that for me Monday.

H: Fine. In that study -- in that study do you want us to put in everything even though it may be very unorthodox?

HMJr: Well, as long as it's Kosher it's all right.

H: (Laughs) Well, I doubt -- if any of it is Kosher, we might put it in and -- so you can see it anyway.

HMJr: Well, see whether you can make it Kosher and unorthodox.

H: O. K. (Laughs)

HMJr: Put in whatever -- whatever we have.

H: All right.

HMJr: Yeah.

H: All right.

HMJr: O. K.

H: I'll be glad to do that.

HMJr: All right.

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H: Goodbye.

(Brief pause)

HMJr: Hello.

Operator: Mr. Cochran.

HMJr: Then after I want Foley again.

O: All right. Mr. Kieley is inquiring about your reservations coming back.

HMJr: Well, tell him as a -- as a -- just as an anchor to the windward to have a single occupancy for me Sunday night. I don't know whether I'll use it.

O: One single occupancy, all right.

HMJr: Sunday night.

O: O. K. Go ahead.

Merle
Cochran: Hello.

O: Mr. Cochran.

HMJr: Hello.

C: Good morning, Mr. Secretary.

HMJr: Anything startling?

C: No sir, things are very quiet here. Sterling is a little better, that's the only rate we've had.

HMJr: I see. Well, I have nothing. I'll be calling up again at 12:30 and at that time let me know whether everything is straightened out with those two scotchmen.

C: All right. I saw them on Wednesday night, you see.

HMJr: Oh, yes.

C: And had a talk there. They were pleased to -- to have this assurance from us. They're still a little concerned lest our friends down on the other street may want to give out something.

HMJr: What street is that?

C: I mean -- Frank's outfit.

HMJr: Oh, yes.

C: And I -- I've tried to put their mind at rest on that.

HMJr: Did you have a good party Wednesday night?

C: Yes, very good.

HMJr: Was that a stag?

C: Yes, stag party. They had three of us from here.

HMJr: Who all?

C: Johnny and Walton and myself.

HMJr: Well, that's nice.

C: And then they had Hackworth and Herbert Feis from State, and had Foster, who is a young lawyer that they've taken on, who happened to be over in this country.

HMJr: Oh yeah, I know about him.

C: And -- let's see -- the -- ^{LeRoy-}Beaulieu, the commercial counselor. And one other person, I forget who it was now. There -- well about ten -- about ten or eleven.

HMJr: O. K.

C: And so there's nothing here. The is coming in at 3:30.

HMJr: Right.

C: And he said he'd be here Monday if you wanted to see him, and I told him I thought you were going to be very busy Monday forenoon anyway.

HMJr: O. K.

C: You don't want to give a date yet for him?
HMJr: Oh, no.
C: Fine. All right, well, I'll -- I'll be here at 12:30 then.
HMJr: Right.
C: Goodbye, sir.

(Brief pause)

Operator: Hello.

HMJr: Yes.

O: Mr. Foley?

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Ed
Foley: Hello.

HMJr: Ed.....

F: Yes, Mr. Secretary.

HMJr: I just won't let you eat your breakfast. I'm sorry.

F: (Laughs) That's all right.

HMJr: Ed, when you see Lloyd Garrison Saturday, see?

F: Yeah.

HMJr: If there was some way of my seeing him Sunday night - if the weather is good I'm going to try to fly back, you see?

F: I see.

HMJr: And if he can take a late train, or whether he could fly or something, but if I could somehow or other get to see him late Sunday afternoon it would be an advantage, and you might talk to him about it.

F: All right, and then do you want me to call you and tell you what the latest is he can leave?

HMJr: I'll be calling up Saturday -- oh, around Saturday noon, and you can tell me then.

F: All right.

HMJr: I mean, if there's some way that we could meet at Washington, you see?

F: Sure.

HMJr: Because if the weather is good I can get back there by -- oh, five o'clock.

F: Right. Well, I think that Chicago.....

HMJr:maybe take a later -- a late plane to Chicago or.....

F: Well, that Chicago train leaves around six o'clock now.

HMJr: Well, train or plane or something, you see.

F: Yeah, he might be able to get a plane after that.

HMJr: Yes, you might look it up, you see?

F: All right.

HMJr: Of course, I don't know whether he flies or not.

F: O. K.

HMJr: But if I could have an hour with him, it would be a great advantage to me after he studied it.

F: Sure.

HMJr: I'd come in early if necessary -- I mean
if the train leaves at six maybe
I'd try to get down there at four thirty or something.

F: All right. I'll see what I can work out and I'll have that for you when you call in on -- around noontime tomorrow.

HMJr: Righto.

F: O. K.

HMJr: I mentioned to Johnny -- I said that you had talked to me Wednesday but I wouldn't listen on this Annenberg thing.

F: All right.

HMJr: And that the more I thought about it -- that I had not -- had only half the story, but I told him that I felt very strongly and I'd ask him to talk to you.

F: Right. I'll give him the story as soon as I get down there.

HMJr: All right. O. K., finish your breakfast now.

F: (Laughs) I ought to be in the office anyway.

HMJr: What?

F: I ought to be in the office anyway.

HMJr: Well, I -- Ed Noble was on my train, so I can imagine where your sister is. Most likely she's up with you too, isn't she?

F: She's right here.

HMJr: Tell her I know that Noble's in New York.

F: Yeah. Well, we had a very nice day yesterday. We went out to the Iokes' for -- for dinner, and then we went over to Bill Douglas' in the evening.

HMJr: Fine. O. K.

F: Very nice.

HMJr: Righto.

F: Goodbye, sir.

HMJr: Goodbye.

TREASURY DEPARTMENT

43

INTER OFFICE COMMUNICATION

DATE November 24, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was active in the afternoon, due to the interest displayed in sterling. Purchases of spot sterling greatly exceeded the sales. Sterling closed at 3.90-3/4 in Amsterdam yesterday. The opening quotation in New York was 3.90-3/4 and it was fairly steady until early afternoon. About that time some demand for spot sterling came into the market, accompanied by selling for one month forward. The discount on sterling for one month widened to 4-1/4 per pound which, on an interest basis, yields 13-1/16% per annum. The actions of the spot and forward rates indicated that some purchasers of spot sterling were in need of balances to cover maturing commitments. The Guaranty Trust Company reported that it received an order from Batavia, Dutch East Indies, to buy £40,000 at the close of the market in New York. The only possible reason for an order of this kind is that the buyer feels that at the close, the rate would be lower than at any other time during the day. As a result of the transactions mentioned above, the rate for spot sterling strengthened to 3.94-1/8. It closed at 3.93-1/2.

Sales of spot sterling by the four reporting banks totaled £248,000, from the following sources:

By commercial concerns.....	£ 88,000
By foreign banks (Europe and Far East).....	£ 160,000
Total.....	£ 248,000

Purchases of spot sterling amounted to £654,000, as indicated below:

By commercial concerns.....	£ 357,000
By foreign banks (Europe, Far East and South America).....	£ 297,000
Total.....	£ 654,000

Cotton bills totaling £130,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 54,000 by the Bank of Manhattan
£ 38,000 by the Guaranty Trust Company
£ 8,000 by the National City Bank
<u>£130,000 Total</u>

The Federal Reserve Bank purchased for the account of the Central Bank of Uruguay 1,000,000 French francs, 300,000 belgas and 30,000 Swedish kronor.

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The rates for the other important currencies closed as follows:

French francs	.0223-1/4
Guilders	.5309
Swiss francs	.2243
Belgas	.1659
Canadian dollars	13-1/2% discount

We sold \$1,000,000 in gold to the Bank of Brazil under the arrangement of July 15, 1937. This makes a total of \$7,070,000 in gold sold to that bank, under the arrangement referred to.

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

\$2,750,000 from the Netherlands Bank
<u>376,000 from the Central Bank of Chile</u>
\$3,126,000 Total

The Federal Reserve Bank of New York reported to us that the Bank of Canada made two shipments of gold totaling \$50,000,000, consigned to the Federal Reserve Bank of New York, for account of the Bank of England. The gold arrived in New York today and it was sold to the U. S. Assay Office. The proceeds were credited to the account of the Bank of England at the Federal.

The Federal Reserve Bank also reported the following additional shipments of gold:

\$4,470,000 from Canada, shipped by the Bank of Canada, consigned to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office at New York.
2,083,000 from England, shipped by the Bank of England, consigned to the Federal Reserve Bank of New York for the account of the Bank of Portugal, the disposition of which is unknown at the present time.
563,000 from Switzerland, shipped by the National Bank of Switzerland, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the B.I.S.
152,000 from Ecuador, shipped by the Central Bank of Ecuador, consigned to the National City Bank of New York, for sale to the U. S. Assay Office at New York.
<u>\$7,268,000 Total</u>

The equivalent of today's London spot silver price was 41.23¢, and the forward price 41.03¢. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York we made five purchases of silver totaling 535,000 ounces, under the Silver Purchase Act.

We also purchased 70,000 ounces of silver from the Bank of Canada, under our regular monthly agreement.


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TREASURY DEPARTMENT

45

INTER OFFICE COMMUNICATION

DATE November 24, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

The Secretary telephoned me at 9:30 this morning. He asked for any news about our two Scotch friends. I had none, but promised to give him anything I might have when he was to call me back at 12:30 noon. I let the Secretary know that Mr. Leroy-Beaulieu was to see me at 3:30 this afternoon and would also be in town next Monday.

The Secretary did not call me back at 12:30, but spoke with me at 4:00 p.m. I let him know that Mr. Pinsent had come in to see me this morning at 11:30. Pinsent had stated that Messrs. Whigham and Gifford had returned to New York, but before departing had sent a cablegram to London, setting forth their recommendation; had received a reply thereto; and had dispatched a second message confirming their recommendation. The first message had set forth the recommendations as discussed with us. The British Government reply had indicated inclination on the part of the Government not to take immediate steps toward vesting itself with dollar securities registered with it. The Government had explained to Mr. Whigham that since the latter had departed from London, there had been a sufficient number of late registrations of dollar securities to offset those which had been sold privately during the same period. The message gave the impression that the Government would prefer to follow for awhile the course of private liquidation, rather than put out cash sterling to take over the securities and itself dispose of them. Whigham's comments were requested. In his reply, Whigham renewed his original recommendation that the plan of taking over at least \$200,000,000 of securities be put into effect at once.

I let Pinsent know that the Bank of England was today selling to our Assay Office in New York \$50,000,000 of gold which it had shipped down from its stock with the Bank of Canada. I reminded Pinsent that in our group conversation with the British representatives earlier this week the question had arisen as to whether gold sales were to be interspersed with security sales. He told me that he knew nothing of this gold sale. I told him that it might give an unfortunate impression for this big transaction to take place the day that he lets us know that the Government is hesitating to put into effect the plan for official sale of dollar securities. Pinsent seemed entirely ignorant of British gold holdings on this side of the Atlantic, and asked if it would be a proper question to inquire how much gold they held in New York. I told him I could not answer him.

Pinsent asked if, in view of the recent press articles, including the article by David Lawrence in the Washington Post, we still favored the idea of the accounts of the European Governments for war purchases being carried

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through their respective central banks with the Federal Reserve Bank of New York. I told him that I was sure there had been absolutely no change in the Government's sentiment on this point. Pinsent volunteered the remark that one of their men, I believe it was Mr. Purvis, had reported that he had found the Federal Reserve Bank of New York "jittery" on this subject when visiting that institution recently. I told Pinsent that there had, of course, been some gossip in the press, and I was aware that some private bankers might not look favorable upon the idea, but that these factors had not influenced us here.

Pinsent mentioned difficulties being experienced with the Riggs Bank in Washington which had informed the British Embassy that the members of its staff may not have overdrafts with the Bank. Pinsent seemed worried slightly lest his people could not carry private charge accounts in this country.

As a final question, Pinsent asked if I could tell him what progress had been made for the setting up by the President of the committee of three which Secretary Morgenthau had recommended for acting as liaison with Governments desirous of purchasing war materials on this market. I told him that I hoped that we could give him some information on this subject next week.

When talking with the Secretary, I gave him the above report of Pinsent's conversation with me. After I had finished talking with the Secretary, but before the Secretary had left the Treasury line, I had a telephone call from Pinsent who said that Whigham had just telephoned him to the effect that he had received a message from London stating that it was not practicable to put the vesting order into effect this weekend, and that Whigham's recommendations would be considered within the next few days. I asked Pinsent if Whigham interpreted this as a discouraging message. Pinsent said that he did not; that this appeared to be merely a delay. When I gave the Secretary this supplemental information, he was disappointed. I let him know that I had pressed Pinsent strongly for immediate action with respect to completing the arrangement for the setting up of their special account with the Federal, and that Pinsent had promised to telephone Purvis and Osborne yet this afternoon with the view to their getting together on details. They had hoped to have some assistance from Mr. Whigham on this point, but this had not been forthcoming. I told Pinsent that since his delivery to us of the note transmitting a message from the British Government, the Secretary had taken it for granted that the account was practically in operation. I told Pinsent that I hoped he would be able to give a favorable report to the Secretary at the beginning of next week in regard to the New York Bank account.

At 3:30 p.m. Mr. Leroy-Beaulieu called on me. He asked about two points. First, had the committee of three been set up by the President? The French were very anxious to procure immediate delivery of thirty planes of a special type. They understood that our Navy was turning back this number of planes to the manufacturers since they were equipped with only four machine guns, and the Navy wanted planes with six machine guns. The French would gladly take

those with four machine guns, and let the Navy take at the same price thirty planes of the six gun type which France has already ordered and expect to be delivered within two months. Leroy-Beaulieu if their men could approach Captain Collins on this point. I told him it was preferable not to approach a Treasury man on such a question pending solution of the general problem of liaison. In this connection, Leroy-Beaulieu wanted to know whom Bloch-Laine should contact in Washington. I told him that this whole question depended upon the setting up of the committee above referred to. Leroy-Beaulieu's second question was as to the proper authority for giving decisions under the Neutrality Act. I told him that the State Department had made certain rulings, but that no general statement had yet been made public as to whether varied requests should be addressed solely to that Department, or to the Attorney General or elsewhere.

In answer to my inquiry as to the progress being made by the French in setting up a special account with the Federal Reserve Bank of New York to take care of war purchases, Leroy-Beaulieu replied that the French Treasury official who was expected to arrive here last Wednesday to perfect the details of the plan, which he said had already been approved in principle in France, did not reach New York Wednesday on the De Grasse. It is now believed that he is enroute from France to the United States. I urged Leroy-Beaulieu to push this matter as much as possible. He said that the Bank of France had been raising certain objections in an effort to require Leroy-Beaulieu to submit to France for decision any payments to a single individual or concern amounting to more than \$100,000.

I gave the substance of my talk with Leroy-Beaulieu to the Secretary in our conversation at 4:00 o'clock. Leroy-Beaulieu will get in touch with me next week to see if I can give him any further advice. I was unable to reach either Mr. Foley or Mr. Bernstein this afternoon while Leroy-Beaulieu was here to seek advice on the point of the legal authority to whom inquiries should be addressed.

I should add that in our conversation this forenoon, Pinsent mentioned that Whigham would in New York see if the Bank of Montreal had dollars available which could be advanced against some of their securities. I told him this plan had not been discussed at our meetings. Pinsent said nothing further would be done until it was seen whether the Bank of Montreal actually had dollars which could be utilized. Before going any further, the British would get our views on this subject, and would also seek a decision from the State Department as to whether the Bank of Montreal agency in New York constituted a "person", and is consequently subject to our Neutrality Law.

I gave the Secretary a little gossip in regard to private banking views on official bank accounts with the Federal Reserve Bank, which the Secretary asked me to expand to him on Monday. After my last conversation with the Secretary, I telephoned Commissioner Frank in regard to the British delay preventing the putting into effect of the plan this weekend. I am to tell Mr. Hanes of this tomorrow.

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

November 24, 1939

*acted for
HSLB
pig* 48

W. C. VanPatter

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

My dear Mr. Secretary:

Enclose herewith a copy
of another letter which I received from
Mr. C. W. VanPatter, dated October 22, 1939,
for your information.

Very truly yours,

J. L. Keeshin
J. L. Keeshin

JLK:LR

Enc.

RECEIVED
NOV 29 1939
DIVISION OF
PROPERTY RECORDS

C
O
P
Y

Kweiyang, China
October 22, 1939

Dear Mr. Keeshins:

I am still working in Kweiyang and will be here for another week before returning to Chungking. I may make a trip to HongHien in between - it all depends on when Mr. Sheshan returns to the States. I will be in Chungking when he leaves. Mr. Bassi was through here a couple of days ago on his return from Haiphong and Hanoi, and I believe Mr. Sheshan has returned to Chungking from his Burma trip.

The new shop and repair sheds are still in the making which makes it necessary to do all the running repairs outdoors. They will be finished in a short time after the material arrives. Mr. Bassi told me that the shop equipment would be shipped from Haiphong as soon as possible. The major shop is turning out a little more work since I reorganized it and taught the staff how to overcome some of their difficulties. They have been wasting thousands of dollars and getting nowhere due to lack of experience with motor trucks, however, I feel quite pleased with myself over what I have been able to accomplish. I feel certain that if you were here, you would be well satisfied up to date. I think as time goes on, I will be able to get results faster due to my getting better acquainted with the working of the Chinese minds, and will also be better acquainted with the different routes, etc. Whenever I could find the time, I have been checking the trucks that have been out of service for more than two months which they claimed were waiting for parts, or needed major work which they were unable to do at the present time. So far I have managed to get over thirty of them, either back in service or in the process of being repaired for service in a few days. I found several that needed only minor repairs and have also located parts for several more which the shop supervisor was told they could not get. In fact, quite a few of the parts were located in the central stock room. This stock room is divided into several buildings due to air-raid danger and I found that quite a bit of their stock was misplaced and this caused them to lose sight of it.

The Chevrolets were sold without heavy duty radiators or oil bath air cleaners for the carburetors, consequently, they boil very quickly on these mountain pulls and as near as I can find out, about seventy-five cylinder heads have been cracked (I think more than 75) and the blocks wear very fast due to the dirty roads. They have been reboring them fifty percent sooner than they would need to if they had been equipped with oil bath air cleaners. Mr. White of the General Motors was here for a few days and he has promised to see what kind of a deal he can work out for these parts. He is also having six sets of front hydraulic shock absorbers shipped in for us to try as a spring-breaking preventative. The Chevrolets have been breaking front springs by the hundreds. Of course, the road condition is the reason but the Chevrolet trucks are too light for the abuse they get here on the Chinese highways.

How is business? I hope it is as good as it has been during the last year. Do you still plan to come over, or have you given up the trip since war has broken out in Europe? I am going to try and mail this letter with Chinese stamps that have the American flag - thought the kids would like them.

With best wishes to you and yours, I am

Sincerely yours,

(Signed)

C. W. VanPatter

American Consulate

Hanoi, Indochina, November 24, 1939.

Subject: Japanese Invasion of Kwangsi affects Transit of Supplies to China.

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to refer to my telegram of November 21, 5 p.m., and to that of November 23, 10 a.m., in regard to the reports reaching Indochina as to the state of affairs in Kwangsi, as a result of the sudden invasion by the Japanese and their advance towards Nanning. The following is a brief account of the developments in Kwangsi, obtained in part from an American citizen who was in Nanning during the early part of the invasion.

It is to be noted, however, that on the date of this despatch Nanning is still in the hands of the Chinese, the Japanese are understood to be at a point some 40 kilometers from the city, Japanese air planes are still bombing the city and the surrounding country, and the road from Dong Dang to Nanning is closed to commercial traffic, although a few trucks were able to get through with supplies for the Chinese forces on the night of November 23.

It is understood that the Japanese attempted a landing at Funghsin on November 15 and that a successful landing was made at or near Yamchow on November 17, advancing towards Nanning in two columns. At a point some 50 kilometers from Nanning the Chinese effectively resisted the Japanese advance until, as my informant states, they were attacked in the rear by Chinese bandits believed to be in Japanese pay. The Chinese retreated to within 20 kilometers of the city and at this point they were able to check the Japanese advance and were able to force the Japanese to withdraw some 30 kilometers, where they awaited reinforcements.

I am informed that all Chinese Government offices evacuated Nanning on November 20 and 21. Parenthetically, I am also informed that many trucks were used for this evacuation which could have been put to better use in supplying the Chinese forces. I understand that there was a certain amount of looting in Nanning and some undiscipline activities on the part of the Chinese militia. All Americans, and I believe all British and French, departed from Nanning prior to November 22.

It is learned that the bombing of Nanning and the surrounding country was on a large scale, at one time more than 35 planes being noted over the city, both land and sea planes. The planes also dropped leaflets in Chinese, exhorting the Chinese to surrender and promising protection to those who surrendered. There is said to have been little or no defense against the Japanese air planes, the Chinese having no planes and only a few 50 mm machine guns for anti-aircraft defense.

Of primary interest, however, is the condition of the Dong Dang-Nanning road. It is understood that in addition to the damage caused by bombing the Chinese themselves destroyed a portion of the road, destroying one half so as to make the road usable only by one way traffic, and mustered some hundreds of coolies to destroy the road completely if Nanning fell into Japanese hands. This was at a point some 90 kilometers from Nanning. Whether this road will ever be used again for commercial traffic and for supplying the Chinese National Government depends entirely upon the outcome of the battle for Nanning. It is the overwhelming consensus of opinion that it is but a question of time, possibly only a day or so, before Nanning will be captured and this road completely cut off.

CONFIDENTIAL

The Department may be interested to note that the Indochina officials do not seem to be displeased with the situation in Kwangsi. The question of transit of goods to China, which was feared would bring complications with the Japanese, is undoubtedly reduced in importance with the impending fall of Nanning and the destruction of the Dong Dang-Nanning road. The Department may also be interested

to note that certain commentators assert that the Indochina authorities are not pushing the work of reconstruction of the Caobang road (my despatch no. 8 of October 20, 1939). to enable this road to carry at least a substantial part of the traffic now carried by the Dong Dang-Nanning road. The continued inadequacy of the Caobang road, possibly by design, will further reduce the possibility of complications with the Japanese.

In summary, the conclusion may be stated that, if Nanning is captured by the Japanese, the Dong Dang-Nanning road will be no longer utilizable by the Chinese and the Chinese National Government will have lost a vital source of supply, amounting to approximately 10 thousand tons a month even under adverse conditions. Mention should also be made that the exportation of tung oil, wolfram, et cetera, from unoccupied China will also be more difficult. There will remain for the shipment of supplies (1) the Caobang road, which is of doubtful immediate value, (2) the railway to Kunming, which can perhaps double its capacity, (3) the Burma road, which is not viewed with enthusiasm by many persons, and (4) the Russian road.

Respectfully yours,

Charles S. Reed II,
American Consul.

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

800/815.4

CSR:csr

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

Nov. 25, 1939

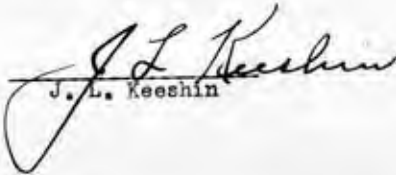
The Honorable Henry J. Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Building,
Washington, D. C.

My dear Mr. Secretary:

I am enclosing herewith a copy of a report which was forwarded to Mr. K. P. Chen, by Mr. Sheahan from Chungking, China under date of November 6, 1939, outlining the various failures and difficulties encountered which were brought about by purchasing equipment not suitable for that type of operation.

I believe that this report brings out very clearly my insistence that extreme caution be used in the purchasing of equipment and that this is a matter that must be given careful consideration in the future purchases of equipment so as not to continue a situation which clearly exists at this time which will very greatly retard progress in bringing about an effective transportation system.

Yours very truly,


J. L. Keeshin

JLK:CFB
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RECEIVED
NOV 28 1939
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

Via "Clipper"

C
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c/o Ministry of Communications
Chungking, China
November 6, 1939

54

Mr. K. P. Chen
Universal Trading Corporation
630, 5th Avenue
New York
U.S.A.

Dear Mr. Chen:

With further reference to my letter to you of October 5th, and your most welcome letter of October 23rd, and with specific reference to a more detailed report and specification for trucks that will better suit the requirements of China's highways, I report the following:

First, we should report our impressions of the approximate 60% of available trucks under repair or awaiting essential parts and the 40% available for use:

1. The 40% available for service are not in normally good condition but reflect the ravages of neglect due in our opinion to deferred maintenance. This has come about principally because of the shortage of experienced mechanics, and the lack of systematic planning of a precautionary or preventative maintenance plan or program.
2. The 30% of available trucks awaiting repairs or under repair are also suffering from deferred maintenance plus the final failure of a vital unit which renders them unavailable. Ordinarily only the failure of the vital unit is corrected and the unit restored to service due to press of circumstances, soon fails again.
3. The final 30% of available trucks are those whose unit failures has been one of such high frequency of recurrence that the stocks of parts available are completely exhausted and the unit must remain out of service until such parts are again available. In addition, this particular group of units are frequently stripped of parts for repair of other units and therefore constitute a service and repair liability of unusual high cost through the necessary duplication of repairs due to the practice of stripping one unit to repair another.

An analysis of the causes of these high frequency of failures is comparatively simple and we believe points unerringly to structural weakness and under-sized designs.

The unsuitability of certain units purchased for operations entirely beyond the capacity for which the units were designed is obvious and we strongly urge that this practice be discontinued. Specifically the units referred to as most unsuitable for use under conditions beyond their ability to surmount are;

Chevrolet

(1) Cooling system of such size and design that retention of coolant is impossible on a hard pull or long grade and circulation ceases after coolant level drops below certain height, this results in intermittent steam pocketing of rear of motor block with resultant liability of cracking the cylinder head. This requires replacement of entire head at heavy expense.

(2) The "Front system" which incorporates front axle spindles, springs, etc., is of such small size for the profile of the roads encountered that continuous spring breakage is the rule rather than the exception.

(3) The capacity of the unit is far below the imposition which is placed upon it, in terms of body weight, weight distribution, and resolution of forces due to the terrain that must be negotiated.

(4) The use of this unit is not indicated in either truck or bus service, based on past performance and constitutes a definite service liability.

In discussing these inherent weaknesses of Chevrolet with General Motors representatives, I am informed that the Chevrolet engineers in America have developed a new cooling system increasing efficiency approximately 26%. You should also be advised that several means have been suggested and in some cases used to overcome the difficulty inherent in this equipment, however, the remedies so far applied have not proved of sufficient efficacy to materially change the situation.

Dodge

This unit while constituting the major group, has been the greatest offender;

beyond its proportion to the whole, thru causing difficulties to both the Military and Civil Transportation agencies. The destruction of life, cargo, equipment and property thru an inherent weakness of design and construction is a matter of record.

Further additions to the record of damage is reduced thru the shortage of replacement parts which are the basic cause of these difficulties and renders many units out of service, therefore, out of further difficulties until such repairs or replacements are made.

The entire front assembly, with the possible exception of the wheels, including spring hangers, shackle bolts, springs, U bolts, front axle and spindles are so close to the critical point in design and factor of safety that any shock above normal intensity, which of necessity must be considered for the type of highways negotiated, is an ever present specter of destruction.

It may be difficult to conceive, from long distance observation, that units which are sufficiently reliable under ordinary circumstances could show such reversal of form on the same classification of Highways. Classification of Highways is mostly a matter of personal opinion and type of road does not in any manner guarantee the profile. The profile encountered on China's highways has been established by hand labor and hand repairs. The undulations are such that springs (front) receive a terrific punishment thru successively increasing amplitudes which on any curve or turn to the left; which with left hand traffic is the short turn, causes a high resolution of forces on the right front wheel spindle and spring. Under the circumstances if the turn is made on a mountain switchback, or downward into a small chuck hole or against a rut, the probabilities of a failure is imminent.

Should the spindle of the wheel fail, the unit in most cases fortunately scrapes along on the axle to a stop; traveling at low speeds, while at high speeds occasional summersaults are a matter of record.

Should the spring fail which is generally the case, the position of the front axle changes and the truck usually pitches across the road generally to the right, which in logical sequence, is over a precipice.

Several other manufacturers' units are in service and while the foregoing specifically states the facts concerning the greatest offenders; in dangerous failures, it is true that the balance do show inherent weaknesses of some character or another. However, no loss of life, cargo and property are entailed as the unit remains on the highway and can be towed or repaired as the case may be.

In conclusion, it is our recommendation that where units of $2\frac{1}{2}$ ton classification are considered for purchase that the front system including spring hangers, shackles, axles and wheel spindles be specified as that of at least the next higher capacity unit regularly advertised by the manufacturer and no consideration be given to front spring of less than $2\frac{1}{2}$ " width. Further that the manufacturer be asked to guarantee all front axle parts, including the beam itself, against fatigue failure within one year from the date of delivery and maintain within a reasonable distance of operation sufficient stocks of front assembly parts to preclude the loss of use now experienced wherein months elapse before these parts are available for replacement. With particular reference to the front system, we urgently recommend that the specification be changed to increase the ability of the entire front system to more safely endure the tortures imposed upon it by increasing the maximum of allowable weight on spring pads to 3800 lbs. and maximum allowable weight on the ground to 4500 lbs. That the minimum spring width be limited to $2\frac{1}{2}$ ". A minimum number of leaves cannot be imposed due to reasons too numerous to mention, however, due to the rate of deterioration of shock absorber equipment, it is felt that a greater number of thinner leaves would help the situation considerably. In connection with shock absorbers, it is our recommendation that this most essential accessory be increased in size to fit the increased capacity of the front system recommendation. It is felt that with the foregoing change incorporated in the designs of new vehicles that a considerable improvement will result therefrom.

Another item that should be looked into is the Dodge fuel pump failures. Many of the fuel pump arm eccentrics on the Dodge cam shaft have been found worn to the extent that the pump would not function properly, especially when the motor is under a pull and a more even flow of fuel is necessary. During the last 6 months more than 30 cams

reflecting this worn condition have been removed in the Kweiyang shops alone and it was found that the pump eccentrics have not been hardened on a par with the valve lifting lobes.

All of the failures of front spring assembly are not the fault of the American motor manufacturers as vehicles equipped with locally built bodies are often a source of trouble primarily because incorrect mounting of the body gives rise to mechanical failures, foremost amongst which is breakages of spring and chassis frames. As a general rule, it should not be necessary in the mounting of locally built bodies to drill any holes in the chassis frame except perhaps one at the rear end of each side member to locate the body longitudinally and for drilling these holes, care must be taken to avoid drilling them in the vicinity of the frame below the front end of the body as this particular part of the frame is subjected to high bending stresses. Drilling is a common but unjustified practice and with a little ingenuity one can usually devise means whereby clamps can be used, avoiding the necessity of drilling the chassis frame. When fitting a fixed type of body the longitudinal runners which rest on the frame should extend as far forward as possible towards the cab so as to distribute the load over the greatest available length of frame. Inspection reveals that frequently this runner stops short a foot or so behind the cab. The additional stress that is put upon the frame is considerable and there is no good reason for so mounting the longitudinal runners. One of the most important factors in controlling front spring breakage is correct weight distribution and in the design of trucks the engineers establish a maximum gross load which a given chassis can have with safety. In designing the front spring, front axle and steering mechanism, the possible gross loads on these units are all considered and a part of this estimation is the size and shape of the cab. Many of the local body builders supply cabs which are shorter than the average length which was intended when the truck was designed. The excuse for this shortened cab is the small stature of the average Chinese driver. However, when cabs are made shorter the bodies are moved further ahead which results in transferring more weight to the front end of the truck than it was designed to handle. We, therefore, urgently recommend that locally built cabs are always built to factory dimensions.

- 6 -

We are arranging for the service bulletins of the various motor manufacturers to be distributed to the maintenance men responsible for the care of equipment. These technical service bulletins as a rule are written in English and translated in Chinese and we believe that this service will prove most helpful in undertaking a preventative maintenance program.

From present indications I am due to return to the United States within the next week or 10 days, and I hope to reach New York before the end of the present month, not only that we may more thoroughly discuss with your engineers the essential changes in truck specifications but that we may become more familiar and assist in co-ordinating the functions of Universal Trading Corporation with the needs of the National Government; in addition we hope to settle in a manner most beneficial to China the unified operations of the civil government. His Excellency Minister Chang Kia-Ngau has requested that I arrange to return to China by about the first of the new year to assist in placing in effect our various proposals and he has suggested a period of from 3 to 6 months. This program is quite agreeable to me providing the necessary arrangement for an extension of my leave of absence can be negotiated with Mr. J. L. Keeshin as I am naturally desirous of continuing my employment with Mr. Keeshin on a permanent basis. Meanwhile and with kind personal regards to all, I await information and the results of cabled requirements forwarded today.

Yours very sincerely,

(signed) Maurice E. Sheahan

cc - Minister Chang Kia-Ngau
Mr. J. L. Keeshin

November 28, 1939.

Dear Mr. Keeshin:

On behalf of the Secretary I am acknowledging two letters just received from you. One, dated November 24th, encloses a copy of a letter you have recently had from Mr. C. W. VanPatter. The second, dated November 25th, encloses a copy of a report made by Mr. Sheahan, and transmitted to Mr. K. P. Chen.

We are glad to have these various documents, and shall see that the material therein is carefully studied.

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. J. L. Keeshin,
President, Keeshin Freight Lines,
Incorporated,
321 West Roosevelt Road,
Chicago, Illinois.

GHP/dbs

TREASURY DEPARTMENT

51

INTER OFFICE COMMUNICATION

DATE November 25, 1939

TO Secretary Morgenthau
FROM Mr. Coshran

The foreign exchange market was extremely dull with a very small turnover. Sterling opened in New York at 3.92-3/4 and, after fluctuating in a narrow range, closed at 3.93.

Sales of spot sterling by the four reporting banks totaled £115,000, from the following sources:

By commercial banks.....	£ 93,000
By foreign banks (Europe).....	£ 22,000
Total.....	£ 115,000

Purchases of spot sterling amounted to £116,000, as indicated below:

By commercial banks.....	£ 80,000
By foreign banks (Europe and Far East).....	£ 36,000
Total.....	£ 116,000

The forward sterling market improved. The discount on sterling for one month was 3-3/4% per pound, equal to 11-7/16% per annum and for three months, 6-3/4% per pound, equal to 6-7/8% per annum.

Cotton bills totaling £34,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 22,000 by the National City Bank
£ 12,000 by the Guaranty Trust Co.
£ 34,000 Total

The other important currencies closed as follows:

French francs	.0222-3/8
Guilders	.5310
Swiss francs	.2244
Belgas	.1661
Canadian dollars	13-9/16% discount

We purchased \$2,250,000 in gold from the earmarked account of the Netherlands Bank.

CONFIDENTIAL

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

\$3,281,000	from the Netherlands, shipped by the Netherlands Bank, consigned to Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
2,631,000	from the Netherlands, shipped by the Netherlands Bank, consigned to Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
1,139,000	from Switzerland, shipped by the National Bank of Switzerland, consigned to Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
<u>\$7,051,000</u>	Total

During the period between November 15 and November 22, the Bank of England's balances were reduced approximately \$52,000,000 at the Federal Reserve Bank of New York. Yesterday, the Bank of England's balances were further reduced by payments totaling \$36,000,000. As mentioned in the report of yesterday, its account was credited with the proceeds received from the sale of approximately \$50,000,000 in gold, which was shipped from Canada.

B. M. S.

CONFIDENTIAL

Unit to Stabilize the Exchange Of 21 American Nations Asked

WASHINGTON, Nov. 22 (AP).—The financial subcommittee of the Inter-American Economic Committee agreed unanimously today on a provisional outline of a proposed inter-American clearing house to strengthen the exchange stability of the twenty-one American republics. The outline was submitted by Adolph A. Berle, Assistant Secretary of State, who has attended subcommittee sessions as a substitute for Sumner Welles, Acting Secretary of State.

Delegates said the memorandum was intended to form a basis for discussion later of a proposal for creation of an inter-American financial institution having some of the facilities of the Federal Reserve system and also incorporating many of those of an international bank of settlement.

The subcommittee agreed to make the United States dollar the pro-

visional basis for determining the relationships of American currencies. However, the resolution provided that this arrangement would be subject to change if it were deemed advisable later. A proposal to establish an entirely new standard monetary unit for the twenty-one nations had been discussed at an earlier meeting.

Delegates said the proposed organization would act as an inter-American clearing house, eliminating many factors causing excessive exchange fluctuations with an adverse effect on commerce and long-term international investments.

Delegates said that so far the discussions had been limited to a broad general outline. Separate Mexican, Peruvian and Ecuadorean projects for such an international bank have been drafted, although they have not yet been formally considered by the subcommittee.

N.Y.-H.T P9 35- Col 2

Treasury Department
Division of Monetary Research

83

Date.....November 25, 1939

To: Secretary Morgenthau

1. Referring to your request for information re statement by Mr. Berle on the stabilization of Latin American currencies, both Mr. Hanes and Mr. Cochran stated they knew nothing about the report.
2. The report did not come before the Interdepartmental Committee on Commercial Policy nor its Subcommittee on Inter-American Problems. (In fact, the latter has not had a meeting in the last two weeks.)
3. Mr. Grady tells me there are three sub-committees of the Inter-American Economic Advisory Committee:
 - (a) One dealing with trade policies. Mr. Grady was appointed by Mr. Welles to represent the United States on that sub-committee.
 - (b) One on economic affairs. Mr. Feis was appointed by Mr. Welles to represent the United States on that sub-committee.
 - (c) One on monetary matters. Mr. Berle was appointed by Mr. Welles to represent the United States on that sub-committee.

We have received no copy of the outline nor is one available through routine channels. If you wish we can, of course, ask either Mr. Welles or Mr. Berle for a copy of the report.

MR. WHITE
Branch 2058 - Room 208

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 25, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

On November 10, I received the following personal cablegram from the Governor of the Bank of Finland: "Would you be so kind to look on Minister Procopos proposal to Mr. Jones of Reconstruction Finance Corporation and assist him in attaining most practical solution. Regards. (Signed) Ryti".

As this was received the day the Secretary was leaving Washington, I did not have a chance to bring it to his attention until his return to Washington the first of this week, when I showed it to him together with accumulation of papers.

Yesterday morning the Finnish Minister telephoned me, stating that we had several common friends, including Governor Ryti and Mr. McKittrick. He said that he wanted to get acquainted with me and invited me for luncheon today. I could not accept.

This morning the Minister telephoned me again and asked if he could come in to see me yet today. An appointment was made for 11:15. When I talked with the Secretary at 11:00 o'clock I gave him the foregoing information. He told me that Mr. Hanes was handling the Finnish matter. Consequently, I telephoned Mr. Hanes at 11:05 and gave him the story.

Mr. Hanes told me that the Finnish Minister had asked to see him this morning, but this being impossible, an appointment had been given him for Monday morning. Mr. Hanes explained to me that the Treasury had referred the Finnish Minister to Mr. Jesse Jones for consideration of his request for a credit. I told Mr. Hanes that I knew nothing of the affair, but felt obliged to receive the Minister. I stated that I would report our conversation for such use as it might be to Mr. Hanes when he receives the Minister on Monday.

The Minister told me that he understood I had received a cablegram from Governor Ryti. I confirmed this and showed him the message. It appeared that the cablegram to me had been sent after Ryti had received a cablegram dispatched by the Finnish Minister on November 7, summarizing the latter's conversation with Mr. Jones in regard to a credit. The Minister had his cablegram, in Finnish, before him when he was speaking with me.

The Minister stated that his original idea had been to seek a loan for the Finnish Government from our Government, but that this had been found impossible. Consequently, the idea of obtaining a credit for Finnish imports from the United States had been investigated. Finland would require imports of some 50 or 60 million dollars for armament purposes. It was understood that credits for this purpose could not be obtained here. Consequently,

funds already available to the Finnish Government would be used for this purpose, and money sought on this market to take care of other necessary imports, such as cotton.

The initial amount of a credit which the Minister was discussing with Mr. Jones was \$10,000,000. Mr. Jones had stated that since no funds remained available in the Export-Import Bank, credit would have to be from the Reconstruction Finance Corporation to a corporation set up in the United States with a capital of \$2,000,000. The Minister had the idea that the \$2,000,000 would be advanced by individuals in the United States, with repayment guaranteed by the Bank of Finland. In answer to the Minister's several inquiries about the purpose and functions of such a corporation, I explained a little about the nature of the Universal Trading Corporation, but did not attempt to give him any final or official data. I reminded him that I was not on the Board of the Export-Import Bank and had no direct acquaintance with Mr. Jones' operations. The Minister assured me that he was not attempting to cut any corners, since he was pleased with the cooperation which Mr. Jones had extended him. He reminded me, however, that Mr. Jones was absent from Washington, and that he had now received further telegraphic inquiries from Ryti which caused him to endeavor to expedite the credit, if at all possible. With this in mind, he had come to see me this morning, and hopes to see Mr. Hanes on Monday.

The Minister did not think that either the corporation handling Finnish pulp sales in this country, or that selling Finnish paper here, was equipped to act as the intermediary for the loan. He hoped, however, that the setting up of a trading corporation would not involve the necessity of a monopoly of American-Finnish trading operations. He would prefer that this new concern work in cooperation with the two existing corporations mentioned above.



MP

GRAY

Paris

Dated November 25, 1939

Rec'd 5:13 p.m.

Secretary of State,
Washington.

RUSH.

2830, November 25, 7 p.m.

PERSONAL FOR THE SECRETARY.

The French Government has just requested me to ascertain whether or not Secretary Morgenthau will be in Washington on Tuesday, November 28, and whether or not he would be able to receive Mr. Arthur Purvis, referred to in my Number 2828 of November 25, 6 p.m. If the Secretary of the Treasury would be glad to receive Mr. Purvis, the French and British ambassadors in Washington will be instructed to ask for the appointment.

BULLITT

EMB

AC

SPECIAL GRAY

Paris

Dated November 25, 1939

Rec'd 7:50 p.m.

Secretary of State

Washington

2928, November 25, 6 p.m.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT AND THE
SECRETARY:

Deladier requested me this afternoon to transmit
the following written message to you:

"Paris, November 25, 1939.

The general arrangements between France and England
for the coordination of the economic war effort of the
two countries have been completed.

The two governments have agreed to appoint as
President of the Committee for Coordination in London
Monsieur Jean Monnet whom you know.

They have decided to create an Anglo-French Pur-
chasing Board in the United States in order to avoid
all competition in French and British purchases and to
permit synchronization of these purchases with those
of the American administration.

The two governments have agreed that the President
of the Anglo-French Purchasing Board should be Mr. Arthur

Purvis

- 2 - #2828, November 25, 6 p.m. from Paris

Purvis.

This organization is the result of the common desire of Mr. Chamberlain and myself that the French and British purchases in the United States should be placed and executed in such a manner that they should be synchronized with those of the American administration and that the American Government should have constant information with regard to them and should insofar as possible accord its cooperation.

I thank you for the assurances which you were kind enough to give me through your Ambassador in Paris that the same sort of cooperation which was given by your administration and in particular by the Procurement Division of the Treasury Department to the mission which was headed by Monsieur Jean Monnet last spring for the purchase of airplanes might be given for the collectivity of French-British purchases. I wish to express to you the determination of Mr. Chamberlain and myself to see insofar as possible the same method applied to the French-British purchases to be made by the Anglo-French Purchasing Board.

I am very happy that like Mr. Chamberlain and myself you consider that cooperation with the American administration is the only method which will permit a
solution

- 3 - #2328, November 25, 6 p.m. from Paris

solution of these problems and I propose to arrange with the British Government that Mr. Purvis who will be in Washington Monday evening November 27th shall receive the necessary orders in this sense."

BULLITT

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2829

DATE: November 25, 1939.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT AND THE SECRETARY.

Reference is made to my telegram no. 2828 of November 25, 1939, 6 p.m. In connection with this matter I was given a supplementary explanation by Daladier to the effect that when he gave me this message it was his wish to emphasize the two following points: (1) that the absolute determination had been reached by the French Government that it would not make any purchases until it had come to a complete understanding ^{with} the United States Government; (2) that while the naming of Mr. Purvis (a British citizen) as head of the joint British-French organization had been agreed to by the French Government, it was the intention of the French Government to watch closely the things done by the Board and that the French Government would insist that the Board's activities coincide with the desires of the United States President.

BULLITT

EA:EB



TREASURY DEPARTMENT

71

WASHINGTON

November 25, 1939

TO THE SECRETARY:

As suggested by you over the telephone, I have had a conference with Mr. Haas, Mr. Murphy, Mr. Hadley and Mr. Edmonston, substituting for Mr. Piser.

We have all agreed that in view of the fact that this is the first major financing for cash since the war started and also the first venture into the bond field, it would be better to confine this operation to cash only. It was also felt that we probably need more time than one week between the cash offering and the refunding offering although market activity for the week following the cash offering would indicate what should be done in this connection.

The market improved today in the late trading, particularly in the area from 1949 on, so that the losses for the past two or three days show a net of from $3/32$ to $5/32$ instead of from $7/32$ to $11/32$. There was very little activity in the market and apparently it is just marking time until this financing is announced.

We all feel that from the standpoint of the Treasury the bond with the optional call date is preferable and that if you decide to issue a bond of this character, a 2% nine to eleven year (due December 15, 1950, callable December 15, 1948) would sell on about a 1.86% to 1.88% basis and would command a premium on the market of 101 to 101.5. Mr. Hadley and the Federal Reserve and Mr. Haas are all in substantial agreement on these yields and prices.

As I told you in my memorandum of yesterday, the banks apparently prefer a definite maturity date; yet the street seems to be talking about a 2% nine to eleven year bond. Mr. Hadley figures that a 10 $\frac{1}{2}$ year (June 15, 1950) 2% bond would sell on a basis to yield 1.88% down to 1.85%, which would command premiums of 101.4 to 101.14. Mr. Haas figures that this fixed maturity should sell on about a 1.89% basis and command a premium of 101.1 which is in substantial agreement with Hadley's lower figure. Mr. Haas admits that he is on the low side and the chances are, as in the past, that the definite maturity would sell on a much better basis than he has figured. The Federal Reserve Bank of New York figures on a somewhat lower basis because they have not given any weight to the definite maturity date.

- 2 -

They figure that the ten-year six-months 2% bond would sell on a little better than 3/4% premium, but admit that this is probably on the low side. I believe that Hadley is nearer right as our experience has been that these definite maturities sell on a much better basis than we figure. Taking the definite 2-1/2% maturity of 1948 now outstanding and projecting it into the future, we get better than a one-point premium as Mr. Haas indicates, which is the basis for his 101-1/32 price.

December 15, 1948 and December 15, 1950 (9-11 years) and June 15, 1950 (10 1/2 years) are all open dates, although some outstanding bonds with earlier call dates and later maturity dates might lap over these periods if not taken up on the earliest call dates.

I am attaching hereto the latest yield sheets submitted by Mr. Hadley and Mr. Haas, with these two issues that I have discussed above marked.

Mr. Rouse just telephoned me that the four gentlemen you asked to see Monday morning will be here at the hours indicated by you, namely, Discount Corporation, 9 o'clock; First of Boston, 9:30; Devine, 10 o'clock; and Levy, 10:30.

WMB

TREASURY DEPARTMENT

73

INTER OFFICE COMMUNICATION

DATE November 25, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

NON-CALLABLE BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
8-1/2 years (6/15/48)	1-3/4%	1.62 1.64	100 100	101.1 100.28	1 pt. 1/32 28/32nds
9 years (12/15/48)	1-7/8%	1.70 1.72	100 100	101.14 101.9	1 pt. 14/32nds 1 pt. 9/32nds
9 years 3 mos. (3/15/49)	1-7/8%	1.73 1.75	100 100	101.7 101.2	1 pt. 7/32 1 pt. 2/32
9-1/2 years (6/15/49)	1-7/8%	1.75 1.77	100 100	101.3 100.29	1 pt. 3/32 29/32nds
9 years 9 mos. (9/15/49)	1-7/8%	1.78 1.80	100 100	100.30 100.21	30/32nds 21/32nds
10 years 3 mos. (3/15/50)	2%	1.82 1.85	100 100	101.22 101.13	1 pt. 22/32 1 pt. 13/32
10 years 6 mos. (6/15/50)	2%	1.85 1.88	100 100	101.14 101.4	1 pt. 14/32 1 pt. 4/32
11 years (12/15/50)	2%	1.89 1.92	100 100	101.3 100.25	1 pt. 3/32 26/32nds
11 yrs. 3 mos. (3/15/51)	2%	1.93 1.95	100 100	100.23 100.16	23/32nds 16/32nds
12 yrs.	2-1/8%	2.00 2.04	100 100	101.11 100.29	1 pt. 11/32 29/32nds

CALLABLE BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
8½ - 10½ yrs. (6/15/48-50)	2%	1.82	100	101.14	1 pt. 14/32
		1.84	100	101.8	1 pt. 8/32
9 - 11 yrs. (12/15/48-50)	2%	1.86	100	101.5	1 pt. 5/32
		1.88	100	101.	1 point.
9½ - 11½ yrs. (6/15/49-51)	2-1/8%	1.90	100	101.30	1 pt. 30/32
		1.93	100	101.22	1 pt. 22/32
9¾ - 11¾ yrs. (9/15/49-51)	2-1/8%	1.95	100	101.26	1 pt. 26/32
		2.07	100	101.87	1 pt. 12/32
10½ - 12½ yrs. (3/15/50-52)	2-1/8%	1.98	100	101.12	1 pt. 12/32
		2.00	100	101.5	1 pt. 5/32

Estimated prices on proposed Treasury bond
(Basis of closing bids, November 24)

	Yield basis	Estimated price
	(Percent)	(Decimals are thirty-seconds)
<u>2 percent coupon</u>		
X 9 - 11 years (Due 12/15/50, optional 12/15/48)	1.86	101.05
9-1/4 - 11-1/4 years (Due 3/15/51, optional 3/15/49)	1.88	101.00
10 - 12 years (Due 12/15/51, optional 12/15/49)	1.97	100.09
X 10-1/2 year fixed maturity (Due 6/15/50)	1.89	101.01

Treasury Department, Division of Research and Statistics.

November 25, 1939

Subject: The Cao bang Road not ready for
Traffic to China.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 8 of October 20, 1939, in regard to the Cao bang road as a possible route for the transportation of supplies to China, and to my despatch no. 16 of November 24, 1939, in regard to the possibly imminent capture of Nanning by the Japanese and the consequent loss of the Dong Dang-Nanning road as a route of transportation to China. According to recent information the Cao bang road is not ready for commercial traffic and it is estimated that the road will not be ready for such traffic within from 5 weeks to 2 months.

Immediately following the Japanese advance on Nanning and the closing of the Dong Dang-Nanning road to commercial traffic, a number of persons interested in transportation proceeded to Cao bang and from there into China for the purpose of determining the possibility of utilizing the road for transportation to China. Included in this group were shippers of petroleum products, Chinese connected with various transportation agencies, and French officials connected with the Indochina Ministry of Public Works and with the railways.

The following is a description of the Cao bang road. The section from Nacham to Cao bang, 105 kilometers in length, is good, with a metalled surface and no bridges and ferries. But at Cao bang there is a ferry capable of handling only a gross weight of 2 tons. The section from Cao bang to Tran Khan Fu (Chungkingfu), about 60 kilometers in length, is fairly good, with a metalled surface and a number of small bridges which will have to be replaced. The road is rather narrow and winding and can be used only by one way traffic. The section from Tran Khan Fu to the frontier (Ngok Hui), 27 kilometers in length, is still under construction, the surface is not metalled and one important bridge will have to be replaced. The section from the frontier to Pingma, about 120 kilometers in length, is excellent, the surface is semi-metalled and capable of handling a gross weight of 5 tons. While two roads from Pingma northwards are under construction (one to Hochi and one via Poseh and Lohli to Annam) neither one are completed and it is estimated that they will not be completed before March 1940.

The representative of the Ministry of Public Works is understood to have estimated a period of at least 2 weeks before commercial traffic can be routed over the Cao bang road but other less optimistic observers are known to have estimated a period of at least 5 weeks to

2 months

2 months. These same observers estimate that the maximum traffic that the Caobang road can handle, when the reconstruction is completed, is approximately 4 thousand tons a month, or one-third the present capacity of the Dong Dang-Nanning road.

If the Japanese establish themselves at Nanning and reconstruct the air field at that city, it is presumed that the Caobang road will be subjected to the same daily bombing that harassed the Dong Dang-Nanning road and necessitated traffic only at night. The outlook for the Caobang road as a major source of supply to the Chinese National Government is therefore far from optimistic, although theoretically it may become an important traffic center.

Respectfully yours,

CHARLES S. REED II,
American Consul

Original and 2 copies to the Department
Copy to Embassy, Chungking
Copy to Embassy, Peiping
Copy to Consulate, Saigon

815.4

CSR:csr

Air Mail

AMERICAN CONSULATE
Hanoi, Indochina, November 26, 1939.

No. 16

Subject: Increased Freight Capacity of Yunnan
Railway of Importance to China.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 16 of November 24, 1939, in regard to the then apparently imminent capture of Yanning by the Japanese and to the possible loss to the Chinese National Government of the vitally important Dong Dang-Yanning road. The possibility of utilizing the Cao bang for the transportation of supplies to China was the subject of my despatch no. 17 of November 25, 1939. The railway to Yunnan is now the subject of investigation as a possible means of transportation to China.

That railway is now understood to be making arrangements to increase its freight capacity. The present monthly tonnage averages at about 10 thousand tons. By using freight cars from the Kunning-Suifu railway, locomotives belonging to the Dong Dang-Yanning railway (both railways being under construction and not in operation), and rolling stock not now needed for the Haiphong-Dong Dang railway (because of the closing of the road to Yanning), it is estimated that the capacity can be doubled. By building additional sidings and running trains at night, it is possible to add another 5 thousand tons to the monthly capacity.

A number of observers are, however, not entirely optimistic in this respect, doubting whether the arrangements will be carried out completely and expeditiously and stressing the fact that the Yunnan railway is often inoperative because of landslides and other mishaps. I believe that the Yunnan railway will substantially increase its monthly tonnage, possibly to 20 thousand tons, which should be of material value to the Chinese National Government. In this connection I venture to add that the French in Indochina appear to be cooperating with the Chinese in a solution of the transportation question.

The question arises, however, as to the arrangements which can be made at Kunning to handle this unprecedented flow of cargo by the railway. Certain commentators believe that the result will be a congestion of freight at Kunning like that at Haiphong.

Respectfully yours,

CHARLES S. REED II,
American Consul

Original and 2 copies to the Department
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S15.4 CSR:car

NC

TELEGRAM SENT

GRAY

November 26, 1939

Noon

AMERICAN EMBASSY

PARIS (FRANCE)

1447

RUSH

FOR THE AMBASSADOR

Your 2830 November 25, 7 p.m. The Secretary of the Treasury would be pleased to receive Mr. Purvis at three p.m. Tuesday, November 28th.

HULL
(JFS)

EA:FEIS
S:JFS

November 26, 1939
8:40 p.m.

80

HMJr: How are you?

Cy
Upham: Fine.

HMJr: I got that memorandum that you sent to Mrs. Klotz.

U: Well, I didn't.....

HMJr: That's all right. I don't know what all the fire-works are about. Let me tell you first, at my recollection - you remember when I asked you to come in that afternoon?

U: Yes, sir.

HMJr: About a certain man and his borrowing?

U: Yes.

HMJr: At that time you told me that at one of these meetings Mr. Hanes had said that he'd consider this December 15th a "Gentlemen's Agreement".

U: Yes.

HMJr: And I said to you, "I don't believe Hanes ever said that." And.....

U: You told me that you had asked him point blank and he had denied it.

HMJr: Oh, now that's where the -- wait a minute - that's where the confusion is. Wait a minute, I said, "I don't believe it," because I had asked him not about this meeting -- I've had no conversation with Hanes. I never knew it until you told me. I had asked him - oh, two or three weeks ago, several weeks ago -- in fact, before I went away.....

U: Oh, I see.

HMJr:whether he considered -- I wanted to know whether he considered that meeting was a binding meeting, and he said, "Positively no." I asked him that -- I'm quite sure I made -- I think I made a note of it; I can look it up. I asked him that question before I went to Arizona.

- 2 -

U: I see.

HMJr: So when you told me this, I decided I would not repeat it to anybody, and didn't.

U: Well, that's -- I -- I.....

HMJr: Now, wait a minute.

U: I didn't have any idea that you did.

HMJr: What?

U: I didn't have any idea that you did.

HMJr: No, I didn't repeat it, because -- I'm making it easy for you.....

U: Yeah.

HMJr:and you can make it easy me.

U: (Laughs)

HMJr: I said, "If I tell Hanes that Upham said this, I will get Upham into hot water again and what is the use?"

U: Yeah.

HMJr: So I never breathed it to another living soul.

U: Well, I didn't have any idea that you did, Mr. -- Mr. Morgenthau.

HMJr: No, but where did Hanes get -- who -- how did Hanes get started on all of this?

U: Oh, I told the Comptroller.

HMJr: Why?

U: And the Comptroller told Hanes.

HMJr: Now wait a minute. Say that again.

U: On last.....

- 3 -

HMJr: You told the -- after you went out of this room?

U: Oh, yes it was -- it was Friday.

HMJr: You told the Comptroller?

U: Yes.

HMJr: What did you tell him? Now, be just as frank with me.

U: I thought this -- I thought this memorandum explained it.

HMJr: No. No, you don't -- you don't say in there at all what you -- you -- your memorandum - you read it again -- you write it as though the person that -- that I knew all about it. There's nothing in the memorandum to tell me what happened.

U: Oh.

HMJr: Now just give it to me.

U: Oh, you aren't in on this at all, Mr. Secretary.

HMJr: Well now, what -- what.....

U: Ah.....

HMJr: After you left.....

U: No, that was a forgotten incident and then -- you don't figure in this at all.

HMJr: Yeah, but what happened? What did you tell the Comptroller?

U: I think on Friday I was talking to the Comptroller and he asked me, "Now -- now Cy," he says, "Is there anything in all this transcript that I shouldn't have done or that I've done wrong?" He said, "Just be very frank with me and tell me." And I said, "Well....."

HMJr: Wait a minute, Cy, I haven't got a white light. Let me just change.....

- 4 -

U: Just get a what?

HMJr: Wait -- I'm at the Treasury.

U: Oh.

HMJr: Just a moment - wait a minute.

U: All right.
(Brief pause.)

HMJr: Wait a minute.

Operator: Operator.

HMJr: Will you fix it so I have a white light, please?

O: All right. Just a second.
(Brief pause.)

O: Is that all right?

HMJr: No.

U: No.

HMJr: No light at all.

O: Well, just a second.

HMJr: What -- there's a separate cord there, isn't there?
(Another brief pause.)

HMJr: Hello?

U: Yes.

O: Is that all right now?

HMJr: No, there are -- do you know which cord to use?

O: I -- I see what you mean. All right, one second.
I'll have to call Mr. Upham back then.

HMJr: Well, supposing you do that. And use the -- isn't there a thick and a thin cord there?

- 5 -

O: Yes, there is.

HMJr: Well, I want that cord.

O: All right. I'll call you right back, Mr. Morgenthau.

HMJr: Thank you.

O: All right.

(Break in conversation while operator called Mr. Upham back.)

HMJr: Hello.

U: Well, this is what happened. I told the Comptroller that I thought he made a mistake by having a meeting with the Gianninis without his staff and without a stenographer.

HMJr: Yes.

U: He knew that that's the way I felt about it because I had told him the same thing last -- a year ago.

HMJr: Yeah.

U: So -- as illustrative of that I said, "Mr. Mario Giannini said in Mr. Folger's room that during that meeting when there was no staff and no stenographer present, Mr. Hanes had remarked that of course the December 15th program was an agreement; that while it might not be legally binding, it was morally binding as a 'Gentlemen's Agreement', and that we're all gentlemen."

HMJr: That's - Hanes said that?

U: Yes. Well, I -- I used that as an illustration of what they can say if you have meetings that aren't recorded.

HMJr: Now, who told you that?

U: Oh, I don't remember whether it was Tietjens or Wright

HMJr: Oh.

- 6 -

U: One or the other.

HMJr: You weren't present at that?

U: No, I was not there.

HMJr: And it wasn't Folger?

U: No, I'm sure it wasn't Folger.

HMJr: I see. Well.....

U: But I don't think that makes any difference.

HMJr: No, but now where do I come in?

U:

HMJr: But where do I come in then?

U: You don't come in at all.

HMJr: But I understood that the point was that -- that Hanes said that you shouldn't have told me this.

U: Oh, no. Oh, no. No.

HMJr: Well, I mean, I.....

U: The Comptroller -- no, you don't figure in this at all, Mr. Secretary. The Comptroller went ~~at~~ repeated what I said to Mr. Hanes.

HMJr: Yeah.

U: And Mr. Hanes sent for Foley and Sherbondy.

HMJr: Yeah.

U: And told them, and then they -- Donald was very much upset because Mr. Delano told Mr. Hanes that Sherbondy told me. And I thought I better clear it all up with Mr. Hanes and say what -- just exactly what I did tell the Comptroller. No, you don't figure in this at all.

HMJr: Well, I -- I got the impression from Mrs. Klotz that you told her what Hanes was upset was that you had told me this.

- 7 -

U: Oh, no. No, I don't think so. No. I was talking to Mrs. Klotz on the basis of -- of what the mystery to me was how you had found out about this.

HMJr: Well, you told me.

U: Well, but -- you see, I misunderstood apparently what you said to me. I thought when I told you you said, "Well, I asked Hanes that point blank and he....."

HMJr: I did.

U: "..... it.

HMJr: I did.

U: I thought you were talking about this particular session.

HMJr: No.

U: Well, then that clears it all up.

HMJr: Well, again referring to Mrs. Klotz. Didn't Hanes tell you not to take stories back to me?

U: Oh, he has in the past. Yes, a year ago.

HMJr: But I mean, did he do it this time?

U: No, no - Mr. Hanes hasn't had any discussion with me at all about this. I haven't seen him.

HMJr: Well now.....

U: You see, I sent him a memorandum.

HMJr: No. Well, when I told you that Hanes had told me this and I had asked if that was -- I think before I went west, and when you told me this thing the reason I denied it so flatly on behalf of Hanes was because I had asked him point blank, I don't know, three weeks ago - a month ago - whether.....

U: Well, there's where I misunderstood you. I thought it was this particular statement.

HMJr: That I knew about it?

U: Yeah.

HMJr: No, and when you told it to me.....

U: Yeah.

HMJr:I thought it over, and I said, "Now, what's the use? Once before I repeated something that Upham had told me to Hanes....."

U: Yeah.

HMJr: ".....and there was all this row and what's the use getting you into hot water again."

U: Yeah.

HMJr: So I never repeated it to anybody.

U: Well, Hanes denies it this time too, that is he says he never said it.....

HMJr: Well, why.....

U:to Mario.

HMJr: What's that?

U: He says he never said it to Mario.

HMJr: Who says so?

U: Hanes.

HMJr: Well, what was he so upset about?

U: Well, I think he was so upset to think that anybody would repeat to me some remark about what he had said, which wasn't true.

HMJr: Well, but even so he -- let's say -- is he -- was he upset at the repeating or at the remarks?

U: I don't know. You see, he hasn't had any direct contact with me.

HMJr: Oh. Well, just in case.....

U: You aren't in it at all.

HMJr: Well, then I'm not going to say anything to Hanes, at least I don't think I will. I want to sleep on it.

U: Well, I.....

HMJr: But that.....

U: -- I'd just as soon you didn't.

HMJr: Well, I -- you'd just as soon I didn't?

U: Yes.

HMJr: Well -- because no one except Mrs. Klotz knows of my conversation with you.....

U: Yeah.

HMJr:the other afternoon or this evening.

U: Yes.

HMJr: See? Nobody knows it, because I said, "What's the use?" Because I do want to know things when they are important. I've told you the inconsequential things, we'll let those go by, but the important things, I do want to know.

U: Yeah.

HMJr: And I do want to feel that you can come to see me or anybody else can come to see me at any time.

U: Yeah.

HMJr: Whether it's you or Sherbondy or the doorman.

U: Yeah.

HMJr: I mean, if you don't mind the trio.

U: (Laughs) Not a bit.

HMJr: The trinity.

U: Not a bit.

HMJr: All right. Well that -- that's the way I feel. No, I -- I understand it now and I can see where you thought that I had heard about it before, but I hadn't.

U: Yes.

H.M.Jr: But this idea that people can't come and tell me things is all wrong.

U: Well, I think Mr. Hanes also feels that I should not have sent the memorandum direct to him, that I should have sent it to the Comptroller or through the Comptroller.

H.M.Jr: Oh well -- listen, all that is very nice if everybody lives up to it but -- but who lives up to it? I mean, everybody slips every once in a while.

U: Well this is a very petty matter that doesn't need to bother you, I say.

H.M.Jr: No. Well, I got it tonight and I - I thought, "Well, why not find out what it's - what I had was the impression - there's no use going all over it again - was that Hanes was upset because you had told me this.

U: No. No, I don't think he - I don't think he has any knowledge that I ever mentioned it to you.

H.M.Jr: Well, I think that that column of Pearson and Allen helped.

U: Yeah, that was very good.

H.M.Jr: Yeah - yeah.

U: Incidentally, Jefty was in last week.

H.M.Jr: Oh, was he?

U: And they tell me that he is Jimmy Roosevelt's attorney.

H.M.Jr: Yes, I think that's right. That's right.

U: I didn't know that.

H.M.Jr: And so what?

U: I didn't know that before.

H.M.Jr: Oh sure, sure, sure. And - this is going to work out all right. I'm not worried a bit. You know the latest adviser I have, don't you?

U: Well, I heard Dean Garrison was here.

HMJr: That's right.

U: I.....

HMJr: That's right. Well, between Garrison and Landis, and Greenbaum, and the three bankers, I think I've got plenty of advice.

U: (Laughs)

HMJr: What?

U: Yes, I think you've got plenty.

HMJr: Yes, and good advice too.

U: Yes. Yes, I think so.

HMJr: Yeah. Well, we'll shortly have to make up our minds and once -- whatever we do then that's over. Now that other thing, getting the brother's borrowings, are you taking care of that?

U: I haven't the answer to that now, I'll send it in to you in the morning.

HMJr: You have the answer?

U: Well, yes, I have as much of an answer as we can get. It's very inconclusive. It was refinanced; it was taken out of the coast bank and put in Irving Trust Company.

HMJr: Well.....

U: About two -- well, in 1936.

HMJr: Irving Trust in New York?

U: Yes.

HMJr: But I think the interesting thing would be to get the date that the original thing was made.

U: I'm not sure whether I have that.

HMJr: Well, because then we -- then we can find out -- well, I think it's most important.

U: Yeah.

HMJr: To get the date. I thought we had the date, it was '34.

U: I think we do but I'm not sure - just recalling it.

HMJr: Well then we would look up the time that that fellow came down to help me.

U: Yeah.

HMJr: You see?

U: Yeah.

HMJr: It's over at the Irving Trust now?

U: Yeah.

HMJr: Well, don't they -- don't they have to put up collateral there?

U: Yes, I suppose they transferred the same collateral.

HMJr: Is that a national bank?

U: No.

HMJr: Well, could we -- do you suppose we could find out about it? On an income tax basis, yes.

U: Well, there are ways, I guess, that Irey might have.

HMJr: You bet. Well now, listen, old man, this -- this is nothing to worry about. The only thing to worry about is how long is it going to take me to make up my mind what's right and wrong on the whole business.

U: Yes, that's -- that's the only important thing.

HMJr: Yeah. And I still say that you and Delano will tell -- will be boasting to your grandchildren about it.

U: (Laughs) That was a slip. (More laughter)

HMJr: That's all right. How do I know he doesn't have any children?

U: Well, I don't either.

HMJr: All right.

U: (Hearty laughter.)

HMJr: O. K.

U: Good night.

HMJr: Good night.

TREASURY DEPARTMENT

23

INTER OFFICE COMMUNICATION

DATE November 27, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned me at 11:00 o'clock this morning. He wanted to know if we had been officially informed of the appointment of Monnet and Purvis. I told him that we had received a message last week anticipating such a set-up, as I had confidentially advised Leroy-Beaulieu last Friday, but that we had not yet received official confirmation of the actual appointments. Leroy-Beaulieu said that neither he nor Pinsent had received any official word on this point. He asked me further if I could confirm the present report that Bloch-Laine was to head the joint French and British Purchasing Commissions in Canada. I told him I knew absolutely nothing of this, except that I had seen it mentioned in one of this morning's newspapers.

I referred to Leroy-Beaulieu's request of Friday for information as to the officials in Washington to whom he should turn for information on certain questions. I informed him that Mr. Cairns, Legal Counsel for the Customs Service, was the official who could answer inquiries in regard to shipment and clearance of exports from this country to France. I added that general questions coming under the Neutrality Law should be taken up with Messrs. Berle and/or Hackworth in the Department of State.

Mr. Leroy-Beaulieu reminded me of his interest in seeing Under Secretary Hanes. I spoke with Mr. Hanes' secretary and transferred the call to him. I later told Mrs. Klotz that Mr. Leroy-Beaulieu was in town, and inquired whether the Secretary desired to see him this afternoon.

Mrs. Klotz later called me back and I then told Mr. Leroy-Beaulieu that the Secretary could receive him at 4:00 o'clock on Tuesday afternoon, provided Mr. Leroy-Beaulieu plans to stay over through tomorrow. Mr. Leroy-Beaulieu accepted this appointment. It was found impossible, however, for Mr. Hanes to receive Mr. Leroy-Beaulieu today, and I informed the latter accordingly at 4:00 o'clock this afternoon. At this hour, Mr. Leroy-Beaulieu asked if I could receive him this afternoon around 4:30, and I replied in the affirmative.

Mr. Leroy-Beaulieu called on me at 4:30 this afternoon. Since he was merely inquiring about the question of liaison between purchasing commissions and this Government, to which I promised him an answer shortly, he decided not to remain over tomorrow afternoon. Consequently, his appointment has been cancelled.

J. M. R.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 27, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was quiet although the turnover in sterling was good. In New York sterling opened at 3.91. About mid-morning the rate declined to 3.90-7/8. Shortly thereafter the rate began to improve and during the late afternoon, it reached the high of 3.92-1/4. At the close the rate was 3.92-1/8 bid for a small amount of sterling.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £503,000, from the following sources:

By commercial concerns.....	£ 81,000
By foreign banks (Far East and Europe).....	£ 372,000
By Fed. Res. Bk. of N.Y. (for Norway).....	£ 50,000
Total.....	£ 503,000

Purchases of spot sterling amounted to £344,000, as indicated below:

By commercial concerns.....	£ 210,000
By foreign banks (Far East, Europe and South America).....	£ 134,000
Total.....	£ 344,000

A comparison of sterling transactions mentioned in the reports for the past three days, gives some idea of the uncertainty as to the supply of and demand for sterling. Last Friday, purchases of spot sterling exceeded the sales by £406,000. On Saturday, purchases offset sales, and today, sales exceeded purchases by £159,000.

Cotton bills totaling £21,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£10,000 by the National City Bank
5,000 by the Guaranty Trust Company
3,000 by the Chase National Bank
<u>£21,000 Total</u>

The other important currencies closed as follows:

French francs	.0223-1/4
Guilders	.5309-1/2
Swiss francs	.2243-1/2
Belgas	.1655
Canadian dollars	13-5/8% discount

For the past few days the rate for the Chinese yuan receded, and today it was quoted at .07-13/16¢.

We sold \$1,500,000 in gold to the Central Bank of Argentina which was added to its earmarked account at the Federal Reserve Bank of New York.

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

\$2,000,000 from the Netherlands Bank
230,000 from the National Bank of Belgium
\$2,230,000 Total

The B.I.S. cabled to the Federal Reserve Bank of New York to apply for a license to transfer approximately \$562,000 in gold from its Account #2 to its Account #4. Account #2 is the B.I.S.'s own account, and Account #4 is gold owned by the Central Bank of Turkey. This transaction represents the sale of gold by the B.I.S. to Turkey, which is, in turn, held by the B.I.S. as collateral for commercial credits granted by it to the Central Bank of Turkey.

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

\$1,688,000 from Switzerland, shipped by the National Bank of Switzerland, consigned to the Federal Reserve Bank of New York for the account of B.I.S., the disposition of which is unknown at the present time.
1,487,000 from Mexico, shipped by the Bank of Mexico, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Bank of Mexico.
\$3,175,000 Total

In the reports of November 24 and 25, mention was made of reductions of the balance of the Bank of England's account at the Federal Reserve Bank of New York. On November 25, the English Bank ordered payments amounting to \$17,273,000. During the period from November 15 to November 25, inclusive, the Bank of England made payments totaling \$123,900,000. Of this amount, approximately \$8,900,000 was transferred to the accounts of other central banks at the Federal. The balance of \$115,000,000 was paid to various banks in the street. The greater part of the payments made probably represents the delivery of dollars against forward contracts entered into by the Bank of England, in behalf of the British Equalisation Fund, during the latter part of August when there was very heavy pressure on sterling.

The U. S. equivalent of today's London spot silver price was 41.19¢ and the forward price, 41.03¢. The price fixed by Randy and Herman for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York we made seven purchases of silver totaling 565,000 ounces, under the Silver Purchase Act.

B.M.F.
CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 27, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent called on me at 2:45 by appointment. He stated that Colonel Greenley had received a message from Ottawa, enclosing a copy of a communication from London to Paris, concerning the desirability of Colonel Greenley proceeding to Washington to discuss the question of the liaison between the Anglo-French Purchasing Commissions and the United States Government. Upon finding that Pinsent knew nothing of the cablegram from Ambassador Bullitt, requesting an appointment for Mr. Purvis for tomorrow, I showed this message and our answer to Mr. Pinsent.

Mr. Pinsent, after returning to his Embassy and telephoning to Mr. Purvis, found that neither the Embassy nor Mr. Purvis had any instructions in regard to a possible call at the Treasury by Mr. Purvis. Furthermore, Mr. Purvis has a full schedule in New York tomorrow, his particular purpose being to endeavor to clear up with Governor Harrison tomorrow morning the question of establishing a special account with the Federal Reserve Bank of New York. At Mr. Pinsent's request, I took up the question of changing the appointment, and arranged with the Secretary for 3:00 o'clock Wednesday afternoon, instead of 3:00 p.m. Tuesday.

Mr. Leroy-Beaulieu told me, when he called at 4:30 this afternoon, that he had no knowledge of the request for an appointment for Mr. Purvis. His Embassy had been informed that it was to receive shortly a copy of a message from Prime Minister Daladier to President Roosevelt, but that this had not yet been received.

I told Leroy-Beaulieu of my conversation with Mr. Pinsent, and he agreed that it would be proper to change Mr. Purvis' appointment to Wednesday. Leroy-Beaulieu had heard that Bloch-Lainé was to be Vice Chairman, under Purvis, and asked if Bloch-Lainé should not accompany Purvis for this appointment. I told him that I thought this appointment should be in conformity with the cablegram, that is, for Mr. Purvis. I told him that when the question of liaison had once been definitely established, Bloch-Lainé should have no difficulty in making the necessary Governmental contacts. Leroy-Beaulieu showed through his inquiries in regard to the liaison committee that he was unaware that one transaction for the French had already been consummated through this committee. I told him that I would prefer that the Secretary reveal this to him, or that I get further details before explaining it definitely. At 5:45 I telephoned Leroy-Beaulieu to let him know that the appointment for Mr. Purvis had been changed to Wednesday.



TREASURY DEPARTMENT

27

INTER OFFICE COMMUNICATION

DATE November 27, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

At 11:00 o'clock yesterday, Mr. Stone, of Secretary Hull's office, telephoned me to the effect that a cablegram had been received from Paris in which Ambassador Bullitt inquired, at the instance of the French Government, whether Secretary Morgenthau would be in Washington on Tuesday, November 28, and whether he could receive Mr. Arthur Purvis on that date. If so, the French and British Ambassadors in Washington would be instructed to ask for the appointment. I asked Mr. Stone for any background on this matter, but he had none. I told him that a cablegram had been received some days ago and shown to the Secretary, which concerned this question, but that the Treasury Department had not seen the reply which the State Department sent in answer thereto. Mr. Stone referred me to Dr. Feis.

I telephoned Dr. Feis and he expressed his regrets that a copy of the outgoing cablegram had not been sent to the Treasury Department. He gave me the general tone thereof, and promised to provide me with a copy this morning.

With this background, I telephoned Secretary Morgenthau at the Farm at 11:30. I repeated to the Secretary the message as I had received it from Mr. Stone. I reminded him of cablegram #2783 dated November 18, strictly confidential for the Acting Secretary of State, which had been shown to us, and I gave him the substance of the reply which Dr. Feis had told me had been dispatched. The Secretary stated that there could be only one reply to the present request. I agreed, and suggested that I ask Dr. Feis to send a message stating that the Secretary of the Treasury would be pleased to receive Mr. Purvis at 3:00 p.m., Tuesday, November 28. I suggested that the definite hour be fixed, with the hope that the formal procedure involved in the French and British Ambassadors being instructed to seek this appointment from the Secretary might be avoided. We already knew Purvis and did not require such an impressive build up for him. The Secretary agreed to this message and I telephoned it to Dr. Feis at 12:00 o'clock for immediate dispatch.

While talking with the Secretary, I reminded him that we might take occasion when Mr. Purvis is here to urge the completion of the arrangements for setting up the British official account with the Federal Reserve Bank of New York.

When I saw the Secretary this morning at 9:00 o'clock, he asked me to prepare a memorandum for his use when he receives Mr. Purvis tomorrow.

At 11:45, the messenger whom I had sent to the State Department at 9:45 this morning, returned with copies of paraphrases of the following messages

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which concerned the above suggestion:

1. Paraphrase of no. 2783 from the American Embassy, Paris, November 18, 1939.
2. Paraphrase of no. 1417 to Paris, November 20, 1939.
3. Paraphrase of no. 2829 from Paris, November 25, 1939.
4. No. 2828 from Paris, November 25, 1939.
5. No. 2830 from Paris, November 25, 1939.
6. No. 1447 to Paris, November 26, 1939.

Dr. Feis had not mentioned to me yesterday cablegrams #2828 and #2829 from Paris.

November 28, 1939.

At my request, Dr. Feis' office today provided me with a paraphrase of cablegram #1378 to the American Embassy at Paris, dated November 10, which had not heretofore been shown to us.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

99
Bidney

DATE November 27, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *JA*

Notes on the Secretary's conferences, 9 to 11 A. M., Monday, November 27, 1939, with the following bond dealers, who were interviewed separately:

Dudley H. Mills, President,
Discount Corporation of New York.

Col. Allan M. Pope, President,
First Boston Corporation.

C. J. Devine,
C. J. Devine & Co. of New York.

Benjamin J. Levy, Partner,
Salomon Bros. & Hutzler,
New York, N. Y.

Also present during the interviews were:

Mr. Hanes	Mr. Rouse,
Mr. Bell	Vice President,
Mr. Haas	Federal Reserve Bank of New York.

- - - -

Dudley Mills

Mr. Mills, in response to the Secretary's question, said he would advise making only the cash offering at this time. He would omit the refunding of the March notes until later. The offering for cash, he explained, would serve as means for testing the market which could be used to advantage in the larger job, that of refunding the March notes.

Mr. Mills, in explaining that he would advise against doing both the cash refunding and the March notes in one shot, gave his appraisal of the Government bond market, noting that the primary market, such as the Treasury note market, was assured. The open question involves the secondary market which would be utilized in the redistribution which would take place to a very considerable

degree in an offering of a long-term bond and to a lesser degree in a medium-term bond. He therefore concluded that it would be more prudent to test the secondary market initially by a small cash offering by means of a medium-term bond. The redistribution, he felt, would probably be completed in a short time, leaving the Treasury with a minimum of exposure in case of an unfavorable foreign development. One thing at a time, he felt, would be his method of procedure.

Mr. Mills discussed the merits of a fixed maturity, pointing out the fixed maturities in the market break held up better and came back more rapidly. He also felt that the fixed maturity provided cheaper money for the Treasury. The Secretary disagreed with this statement by Mr. Mills, pointing out that the Treasury if it so desired might hold an optional bond to the maturity date and in that case the optional bond certainly would provide cheaper money than the fixed maturity. Mr. Mills agreed, and it developed that Mr. Mills was making the comparison of the fixed maturity with the call date of the optional maturity bond.

Mr. Mills indicated that he would favor a 9-11 year bond. This, he felt, might be added to later on, and suggested that in the refunding of the \$1.3 billion March notes a three-way proposition might be offered which might include the 9-11 year bond plus a 5 year note plus a longer-term bond. In reply to the Secretary's question, Mr. Mills said that the insurance companies have about \$800 millions cash available for investment. Mr. Mills calculated that the 9-11 year bond would sell for 101 plus. He would also date the bond June, 1948-1950, which, he thought, would increase the premium somewhat. The Secretary asked him, if the Treasury should open this bond again in a couple of weeks would the market feel it had been "short-changed"? Mr. Mills said it would not bother him.

The Secretary questioned Mr. Mills regarding the Public Service of Colorado bond issue which the press had stated would be offered Tuesday. Mr. Mills was not sure that Tuesday would be the offering day, nor was he familiar with the terms of the issue. He did, however, know that Halsey Stewart Co. headed the syndicate which was to handle the issue. He felt, however, that both the Treasury issue and the Colorado Utility issue could go off easily as they would be taken up by different types of investors.

To sum up, Mr. Mills said he would recommend only the cash offering, this to be obtained by the issuance of a June 1948-1950 2 percent bond. This, he indicated, would sell initially for 101.8/32 and would later drop to 101 or less during the redistribution, and that after the issue was digested it would move upward.

Col. Pope

The Secretary asked Col. Pope if he would give him his suggestions as to the best way to raise \$500 millions new money. Col. Pope countered by saying "just new", and then went on to explain that he thought there was a real advantage in coupling the refunding of the March notes with the new money financing. Col. Pope felt that the market was good enough now to handle the two propositions, and that full advantage should be taken of a good market because no one knew how long it would last. He went on to develop some of the market inconveniences resulting from the ensuing holidays. The Secretary said that \$2 billions at one time was more than he wanted to risk.

The Secretary indicated that he was considering making a cash offering tomorrow, and Col. Pope commented that the Thanksgiving holiday would have little effect on a cash issue.

The Secretary questioned Col. Pope with regard to the Colorado Utility issue. Col. Pope was familiar with the issue and said it was to be offered tomorrow at 102 and that the coupon was $3\frac{1}{2}$ percent. He added that it was too bad that both the Treasury issue and that issue were coming out at the same time. He felt, however, that they would both "go over", and in reply to a further question by the Secretary said that he had no worries with regard to either issue. The Secretary asked him if he would advise postponing the Treasury issue until Wednesday. Col. Pope said he would advise against this but would favor postponing it until next week. The Secretary indicated he was not interested in doing that.

For a cash offering, Col. Pope said a medium-term bond not beyond 10 years would be definitely attractive. He favored an optional maturity bond, and said the banks would take it if the call was less than 10 years. He advised against figuring too close and suggested a December, 1948-1950 bond which, he calculated, would sell at 101 to 102.

The Secretary questioned Col. Pope about reopening such a bond in connection with the refunding of the March notes. Col. Pope said he thought a reopening might be subject to some criticism and suggested that the March note refunding might be handled by reopening the March 15, 1944 notes coupled with a long-term bond offering.

The Secretary mentioned the possibility of a three-way offering, including a note, a medium-term bond and a long-term bond. Col. Pope felt that if the proposed 1948-1950 issue was opened in connection with the three-way offering the opening would be subject to less criticism.

C. J. Devine

In reply to the Secretary's question, Mr. Devine said he would not go longer than a 1948-1950 issue. He also would advise against doing the refunding and the cash offering at the same time. The Secretary asked for his opinion as to whether the 1948-1950 bond should be dated June 15th or December 15th. He said he did not think it made any difference. The Secretary asked him about the Colorado Utility issue coming out on Tuesday. This also, he felt, would make no difference.

In response to a further question by the Secretary, Mr. Devine said the market was ready for \$500 millions cash issue and that it would go "out the window and stay put". The Secretary asked him when he would do the refunding of the March notes, and he said that the market would answer that question for him next week. The Secretary also asked his opinion about the advisability of opening the 1948-1950 bond in connection with the refunding of the March notes. Mr. Devine said he would advise also leaving this matter open to be answered by the market at the time the refunding issues were being considered.

Mr. Devine said there was considerable foreign buying in the bond market. He said, however, that the prices have moved up on very little volume as the dealers have no supply to sell.

Replying to the Secretary's question, he said that the feeling of the banks and insurance companies toward Washington was that the market during the crisis was handled beautifully.

The Secretary asked for his opinion with regard to the business situation after the first of the year. He said that his opinion on this would not be worth anything, and added that he was just as surprised to see the stock market sell off as he was to see 1960-1965 bonds now selling at 105. He felt that the worries with regard to the bond market are over and that only the involvement of the United States in war would seriously affect the market.

Benjamin J. Levy

Mr. Levy gave as his suggestion for raising \$500 millions cash an 18 year fixed maturity 2½ percent bond. He calculated that this would sell for 101½ to 101¾ and would "go over" without any difficulty. He felt that the banks and insurance companies would buy them and keep them as well as anything else, and that the market would not be disappointed in such an offering.

In reply to the Secretary's question with regard to the Colorado Utility issue, he felt that the two issues would not interfere with each other. Mr. Levy said that he had no Government security inventory. He said that there was considerable foreign buying in the market and then particularized by saying that Japan had been buying a lot of Governments -- millions in the last few months.

Kidley Mills

Nov 27, 1939

Discount - THE WHITE HOUSE
WASHINGTON

203

1. Syn note w 10yr bond -
leans towards 48-50 2%
due June 48-50 = 101. ~~1~~
will move up to 101 $\frac{1}{4}$

Col. Pope - 1st Nat. -

Dec 15 48-50 2% = 101 to 102

Chris. Klovie

Dec 15 - 48-50 price 101 $\frac{1}{2}$

Solomon Bros + Hutzler

Ben Levy sell at 101-101 $\frac{1}{2}$

18yr 2 $\frac{1}{2}$ % fixed maturity

OPEN MARKET MEETING

November 27, 1939.
11:00 a.m.

Present: Mr. Ransom
Mr. Haas
Mr. Bell
Mr. Murphy
Dr. Goldenweiser
Mr. Hadley
Mr. Harrison
Mr. Rouse
Mr. Piser
Mr. Leach
Mr. Szymczak
Mr. McKee
Mr. Draper

H.M.Jr: Mr. Ransom, I don't know whether you want to follow the usual procedure that we do on money requirement. Do you want Mr. Bell to sketch those?

Ransom: Well now, may I refer to the chairman? Mr. Harrison is the acting chairman of the executive committee. Personally, I would like to have it done because you know I am a little cold on this situation and if it doesn't interfere with your time schedule, at the pleasure of the rest of the committee, I would be very glad to hear that.

H.M.Jr: I had forgotten that George was chairman. I apologize.

Harrison: You know that whenever possible I always take the usual procedure.

H.M.Jr: Well, if it is agreeable to you people, supposing we let Mr. Bell take us through to the fifteenth of March.

Ransom: That will be fine, sir.

Bell: Well, the only thing in that period outside of the regular United States Savings bonds will be 500 million that we are now contemplating. That would give us a balance, going out of November, of a billion 390; out of December, a billion 670; out of January, a billion 478; out of February, a billion 398. That would take us up to March fifteenth, when we would have about the same figure, with income taxes coming in during this ten-day period.

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Draper: Does that include any TVA financing?

Bell: No, it does not.

H.M.Jr: Can I interrupt you a minute? Also, the chairman of the Press Association wanted to take our pictures and I said no, but I am willing to be overruled.

Harrison: Stick to the usual.

H.M.Jr: I just didn't want you to say afterwards, "Why couldn't we have our picture taken?"

McKee: Dan, what does that account for baby bonds in January?

Bell: 150 million in January and 70 million in February.

Ransom: Would you give me those figures again, please?

Bell: What, the balances?

Ransom: No, the....

Bell:Savings bonds?

Ransom: Yes.

Bell: I estimate that there will be about 60 million dollars in December, 150 million dollars in January and 70 million dollars in February.

McKee: Is it a fair question to ask what it was last January?

Bell: I haven't the figures, but I think it was a little up, if I remember, about 135.

McKee: That is your biggest period, isn't it?

Bell: Yes, that is the renewal period or repeat period, I should say. I think that is about all.

H.M.Jr: Anybody want to ask Mr. Bell anything?

Ransom: That contemplates the 500 million new financing which is now being discussed?

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Bell: Yes, sir.

Ransom: And no other?

Bell: That is right.

Ransom: No increase or decrease in the bills, of course?

Bell: No.

Ransom: Just leaving them as they are?

Bell: Yes, and when we last discussed this matter, I had in February 150 million for U. S. Housing, but I have eliminated that now, assuming that it will do its own financing.

Golden'r: It is in the conservative estimate of earnings, isn't it, of returns on the tax?

Bell: Well, putting in the regular budget estimates for the fiscal year 1940.

McKee: Does it look like they are going to run regular, I mean the income tax receipts?

Bell: They are running very close now. Of course, your March returns will be based on your calendar year 1939 income, so whether or not we get that, we will have to wait until March to see, but the others have run very close all year.

Golden'r: You won't get the benefit of this rise in business until that March return.

Bell: We won't know what effect it has, but I think Mr. Haas will tell you the rise in business came pretty late in the year to affect the fiscal year 1940. Is that right, George?

Haas: That is right. There will be a revised estimate. We are working on it now. Of course, that is not included in here.

Bell: That is right.

Ransom: That will not, in your opinion, substantially change your estimates?

Maas: I don't think so for this period that Dan gave - I don't think it will.

Ransom: Too much?

Bell: I don't think so.

McKee: May I ask the Secretary - are you satisfied with this kind of a balance, I mean going through this period of uncertainty, are you satisfied with that much for balance?

H.M.Jr: You mean too much or too little?

I was just leaving it to you whether....

H.M.Jr: Yes. If I could write it down to the last dot, maybe I wouldn't take quite as much as this, but I think there are some other things besides this, considering that the bills that we have cost us next to nothing. If anybody is worried about our balances being too big, why, I can let the bills run off. There have been people that presented this argument to the White House, that our balances were too big and that they shouldn't be over 800 million dollars. Well, I just don't feel that way and I feel that I like to very definitely keep the Treasury in a position so that we could always skip a quarterly financing.

McKee: Even if you were pleasantly surprised by income, you have other maturities to be considered after March?

H.M.Jr: Oh yes, but I mean, I think that some of our Federal Reserve Board members have presented that picture to the White House, that our balances are too big, and I have discussed the matter several times with the President and up to this time he is willing to leave it to me and I don't - you gentlemen know the headaches we went through in September. We were in the fortunate position of not having to finance in September. I don't know where we will be on the fifteenth of March or the fifteenth of January.

To answer your question directly, I would very much like to raise 500 million dollars tomorrow and the President has approved it twice now.

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Bell: I think there is enough flexibility in this next six months to meet your situation.

McKee: Yes.

Bell: We are going to have to borrow money, probably, in March and June and if the income taxes are more than we now contemplate, we can always cut down on those two bonds. That is what you had in mind, isn't it?

McKee: Yes. If you are pleasantly surprised, your fiscal year is cared for.

Bell: That is right.

H.M.Jr: The thing gets down to what kind of an issue we could offer tomorrow and I don't know - George, do you fellows want to talk first?

Harrison: I don't know that it is possible to present any unanimous or common point of view. I think maybe it would be better for each one to say what he thinks.

Personally, I feel that if you want to raise 500 million dollars of cash now - and I wouldn't want to advise against it, certainly - you can do it and you can do it on bills or you can do it on notes or bonds that are properly priced. I don't think there is any question of your ability to raise the money in any one of the three ways.

I, personally, would prefer one of the intermediate bonds, largely because of the fact that there is some evidence that the banks, many of whom own the rights when you come to refund - largely because of the fact that the banks will want the intermediates rather than the longer bonds right now and I think it will go better. Personally, I think I would prefer - I haven't had a chance to talk to Mr. Rouse, but I think while I preferred the fixed date maturity last week, I am swerving around now to an optional date if only because it gives you a little more flexibility when you come to offer a refunding issue for the Marches. In other words, you would then still be in a position to

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open up again whatever you close this time and I think there is some advantage in giving you that leeway.

So I think my preference would be to go ahead with your financing, do it at once, raise your 500 million and perhaps on the two-year bond, preferably with a callable date. I think from the point of view of the banks they would much rather have the fixed date, but from the point of view of the Treasury you have got a little more leeway with the optional date. I mean the leeway not only at maturity, but you have got leeway now in opening it up again if you want to consider this present issue in the refunding.

On the question as to whether you should refund now as well as raise the cash, I think you could probably do that, but my preference would be against it.

H.M.Jr: Well, supposing we go around and ask the members of this advisory group.

McKee?

McKee: As far as the new cash, I feel that is your problem. If you feel you need it and the timing of when you get it, that is your problem. One thing I would like to see is - whether this is the time or not, but it would seem to me your 500 million going out as a separate issue now adds to the public confusion of so many government issues. If it was ever possible to work - to consolidate those in lesser numbers so that they could understand, I think there would be less trading from one to the other and more looking at your paper as investments, but that doesn't seem to be possible in this - at this particular time. From what I read in the press, you are obligated to go ahead immediately on this 500 million dollars because the market is expecting it, but I just wondered whether you considered the fact that throwing it in the hopper together with your March maturities and rolling them over in a three-way proposition, putting new money in with that which matures and taking it all at one time.

Now, the only thing that I see that your 500 million may do, if and when it is stretched out too far,

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it may create a secondary market that may penalize you when you come along prior to December 15th, if and when that is in your program, to roll over your March notes.

Now, if it was all done at one time, I think you would probably get the better market. Now, that is just a personal opinion. I don't think it means much to you, but nevertheless I believe it would be better for the market in general that we handle this thing all at one time and then get out of the market.

H.W.Jr: O. K. I wanted to get your advice.

Ransom: Mr. Secretary, assuming, as I do, that it is your decision as to what balances you maintain at any time and in the light of the statement that you would like at this time to increase your balances by a half billion new financing, I agree with Mr. Harrison that you can raise it in any way that you please at the present time. It would seem to me that from all the evidence we have, that the market would take kindly to an eleven-year bond and that while I think the Treasury would have some advantage in having an optional maturity, say a nine or eleven, I believe you would get less of a problem, if you had any problem with your secondary market, by having a fixed maturity at the present time. I think also, in agreement with what both Mr. Harrison and Mr. McKee have said, that it has some relationship with what you intend to do with your market financing that you perhaps would like to put the present finance on a maturity which would fit in with whatever your plan for that may be. I think you could, perhaps, do it all now. I have a feeling that perhaps that is a little bit too much, that you don't have to do it now and therefore you could wait a while on that.

From our own point of view, trying to exercise our responsibility for attempting to stabilize the market, we might be either better off or worse off if you did it all now. We have no way of knowing that. I don't think it would be a great shock to the market, but I think at the present time if you do your new financing and defer the other for a period, you have got the rest of the year, you have got

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part of the new year to consider that, so it would be my preference that the refinancing be deferred, although I don't think it impossible to do both.

I would like to make a further statement. I have not had any direct communication from Chairman Eccles since he has been away, but his assistant, Mr. Clayton, advised me this morning that the Chairman asked that this be said at today's meeting, and with your permission I would like to read that.

"Chairman Eccles has requested that at today's conference the Treasury be advised that if he were present he would make the following recommendation, which was contained in a memorandum dated September 1, 1939..."

H.M.Jr: Dated when?

Ransom: September 1, 1939.

"....signed by members of the Board of Governors of the Federal Reserve System and presented to the Treasury at the conference on that date."

This is quoting now.

"If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations."

That is the end of the quotation.

"Chairman Eccles would like it stated that the reasons for this position are fully set up on the memorandum of September 1, 1939. Chairman Eccles further requested that it be said that he does not see any necessity for new financing at this time."

H.M.Jr: You can't argue with a....

Ransom:a non-present person.

H.M.Jr: I never saw that memorandum.

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Ransom: I don't know that I have.

Szymczak: You weren't here.

Ransom: That is a quotation from it, I understand.

H.M.Jr: What else have you got?

Ransom: That is all I have, sir.

Leach: I think you would have no difficulty whatever in raising the 500 million dollars. From my own observation, the banks would like a ten-year bond and a two percent bond, but they can't have both, so I think your maturity will probably run beyond ten years. The banks in the fifth district, at least, with which banks I am most familiar, don't care for bonds beyond ten or eleven years at this time and they don't care particularly for five-year notes at around one percent. The statement has been made to me that as much can happen in five years now as used to happen in ten years. They would rather get the two percent and go on to the ten or eleven years than take one for four and a half years.

When it comes to refunding, I think it is rather important that we have a three-way option, that is, most banks either can take the five-year note or a twenty-year bond and they ought to have a chance to get something in between, because a good many banks have an investment policy and I always like to have them have a big refund and always like to give them a three-way issue so they can get something that fits in with their program.

Draper: I like the optional bond, nine to eleven years, at two percent for the 500 million cash and I don't see any objection to also doing the refunding at the present time, providing it is done on the three-way option basis, but I realize that that may seem a little too radical a move at the present time.

Szymczak: Eleven-year bond, fixed maturity, two percent for the 500 million. If you are going to refund at the same time, I would offer a five-year note, eleven-year bond and twenty-year bond.

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Bell: A fixed maturity of eleven years?

Szymczak: Yes.

H.M.Jr: Dr. Goldenweiser?

Golden'r: I haven't anything to add, Mr. Secretary.

H.M.Jr: Mr. Piser?

Piser: The surveys that we have made indicate that banks are definitely prejudiced against the four to five-year notes and also against the long bonds. They have a rather decided preference for a maturity of around eight to ten years or thereabouts. On that basis, I should say that such an issue would be preferred in the market and probably have a better secondary distribution than any of the other possible issues.

Regarding the question between the definite maturity and an optional bond, preference in the market seems to be decidedly for a definite maturity. On the other hand, I should think it would be better from the Treasury's point of view to have the optional bond, because of the possibility of using that in the refunding of the March notes. Therefore, I should think the nine to eleven-year bond might be more desirable than the definite maturity.

Ransom: Mr. Secretary, may I ask Mr. Piser a question? I understood you to say eight to ten-year fixed maturity.

Piser: Somewhere in that period.

Ransom: Do you think eleven years as against the ten-year maturity makes any substantial difference?

Piser: I think some of them would probably not hold an eleven-year bond that might hold a nine to ten-year bond, but I don't think it would be a very serious matter.

Ransom: It seems to me to be drawing the bead pretty fine.

H.M.Jr: Do you want to hear from the Minister of the Open Market? Is that your title?

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Rouse: I haven't got a title.

The market for the past month has grown substantially. The volume has increased until this past week when this piece of financing became imminent. The three issues, two refundings, one for cash - that is Commodity Credit, 200 million, the 526 million of December notes which were refunded, 250 million RFCs issued for cash - have all been settled down and been digested, selling at quoted premiums of about one point over their issued price. I think that is fine. We have had a broad and strong market through 1950 maturities. Beyond that, it has been spotty. We have some occasions for reactions after rapid rises. Generally speaking, no bonds have come out for sale. I would say it had been a scale selling, people selling moderate amounts as the market moved forward. In general, I would say that the market at the moment is in very ripe condition for a new offering.

From what we see of it, the market would like a two percent bond in roughly the ten-year range. The checking I have done indicates that a bond with an optional set-up would be retained just as would a fixed maturity bond. I think regardless of what was offered it would be subscribed and heavily over-subscribed, but the bond in the nine to ten-year range is wanted by more subscribers than any other bond that could be devised. An optional bond would be retained, as I say.

Ransom: Mr. Secretary, if Mr. Rouse feels that the optional bond would be just as secure, so far as the secondary market was concerned, I think it has certain advantages for the Treasury which would make me be willing to express the opinion that it would be just as satisfactory as the fixed maturity. I was under the impression that the fixed maturity would probably stick a little better on the secondary market, but you have checked the market and I haven't and if that is your opinion I would be willing to accept that.

Rouse: Mr. Ransom, going back over a period of time, the subscriptions for new issues bring in so many people that don't want to hold an issue that you are bound to have a considerable amount of those coming on

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the market for profit to be realized, and it is pretty hard to gauge one way or the other, but in general, the banks tell me that while they lack the fixed maturity, definite maturity, if it is at the coupon and the range of maturity they want, they will keep it.

Ransom: Then it doesn't seem to me to be very material, Mr. Secretary, whether it is fixed or optional.

Rouse: I have nothing more.

Piser: Mr. Rouse, there is one question along that line I would like to ask. That would be true of, say, a nine-year to eleven-year bond as against an eleven-year definite maturity, but would not be true of, say, a nine to thirteen or fourteen-year bond, is that correct?

Rouse: Yes, I think that would be correct. The market would expect in the case of a bond around ten years that the optional date would not be over two years, three at the outside.

McKee: Isn't it fair to state that until the Treasury doesn't refinance at the call date, that everything is considered on the call date, until in some of their operations in the future they don't meet a call date, that everybody is going to consider that call date as maturity of the issue they hold?

Rouse: I think in general they will consider the call date as the maturity as long as the bonds remain above par and they are figured that way.

H.M.Jr: Well, I have listened to four different government bond dealers this morning and Mr. Bell was up Friday and I think from the Treasury's standpoint we would get as good a deal as we could if we would sell a nine to eleven-year bond, and they all seemed to think that would sell at from 101 plus. 101 would be about the bottom. That seems to be sufficient margin to make it go. Being able to get a nine to eleven year, whether we let it run eleven years or not - if it does run eleven years and you get your two percent money, it looks as though the Treasury would be getting the maximum that it could out of selling a two percent security and then would

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be getting its flexibility and strangely enough, three out of the four people in this morning wanted a nine to eleven-year bond. One man wanted to sell an eighteen-year bond with a fixed maturity at two and a half percent, but everybody else wanted a nine to eleven. I thought they would tell us to sell the two percent to a fixed maturity, but they don't, so we get the maximum out of the bond for the least money, so why not take it?

Ransom: That is right. I certainly would.

H.M.Jr: Now, the new wrinkle that we like to take - I have done something this time that I have not done in the past. I have let you know much further in advance what we were doing. I think you let them know Wednesday, didn't you, what we were talking about when Mr. Piser was away, his assistant?

Bell: Yes. I called Edmondson on Wednesday.

H.M.Jr: And had your man over on Saturday, so we tried to let you people know as far in advance as possible. I don't know whether you made the suggestion that we were going to have a registered bond up to a five thousand dollar - well, we wouldn't give the man a certificate for sixty days. To take care of the man or the estate or church who wants to invest in Government issues and doesn't want to speculate and can't get them on account of the allotments, this suggestion has been made, that if he has got to wait sixty days for certificates and you have got to pay full cash, they think it will eliminate the speculator and both the President and the Vice President wouldn't be disappointed, because the President can't get the thing for the Hyde Park Church, which has some money to invest, and the Vice President can't get his allotment at any price. I figure this will take care of the Hyde Park Church and the Vice President, but for different reasons.

McKee: Is that a registered security from that time on?

Bell: It is a registered security from the beginning, but the registered security isn't delivered for a period of sixty days after the date of issue.

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Heretofore, at least some time back, we have given preferred allotments up to ten thousand dollars and they got to padding that and we dropped it to five and they padded that and we dropped it to a thousand and they padded that and then we finally eliminated it. We have been trying to find a scheme that would take care of those small investors and at the same time eliminate the speculators. We hit upon this scheme that says, "If you want to invest your money up to five thousand dollars and agree to take a registered security, deliverable sixty days hence, you are all right, you can have it, and get preferred allotment on it."

Harrison: Would you at the same time consider a reduction in the rate on the baby bonds?

Bell: A reduction in the rate?

Harrison: Yes.

H.M.Jr: Don't let him kid you.

McKee: I think there is a misunderstanding on your baby bond thing. What is the average rate, counting your withdrawals, and so forth, on your baby bond money, Dan? Of course it hasn't been out long enough yet to run into your higher rates, has it? So you really haven't had any experience with it, but I would think it would work out over the long period just like savings deposits of a bank do, with withdrawals without interest, that while they agree to pay two percent, the average is about 1 and 45/100ths, due to withdrawals before that maturity.

Bell: I don't know what the average would be over a ten-year period, but I should say it would be above two percent.

McKee: Yes, but it wouldn't be the maximum.

Bell: Wouldn't be 2.91 as an average. They would have to hold to maturity to get 2.91.

H.M.Jr: Does anybody see any objection to trying that?

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I do like to try to please the President and the Vice President.

- Harrison: How much extra work does that involve for us, Mr. Rouse?
- Rouse: I don't believe it will be so much, Mr. Harrison.
- Bell: I don't believe it is any more than the old scheme.
- McKee: What is a fellow going to hold for sixty days?
- Bell: He will get a receipt from the Federal Reserve Bank that he is entitled to a registered security at the end of that sixty days.
- McKee: And he can't dispose of it?
- Bell: It is non-transferable.
- McKee: That is a damn good thing.
- Bell: After that, he can get the coupons just like anybody else or he can sell it with a detached assignment.
- H.M.Jr: But for sixty days it is his. I wanted to make it six months but these fellows talked me out of it. I wanted to make it six months.
- McKee: You can always raise it.
- H.M.Jr: That is right. The other wrinkle, if there is no objection to that, is that Mr. Rouse has got to do policing on these bondholders down there and he has got them so that they close at 4:00 o'clock and we have been having a press conference at 4:00 and it gets out at 4:15 or 4:30, what we are going to do, so in order to cooperate with them we thought we would have a press conference at 3:00 and announce it at 3:00 and that gives them a chance to still stop at 4:00 o'clock, so he said it would be very helpful to him if we announce it at 3:00 instead of 4:00.
- Harrison: What is the objection to the six months? I think that is pretty good.

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- Bell: Well, we thought it was a little long and we thought the sixty days would certainly eliminate the speculators and that was what we are really after. And then too, the sixty days coincides with the sixty days in the U. S. Savings bond circular. That isn't a very good reason, but people are familiar with sixty days.
- Ransom: Why don't you compromise on ninety days?
- McKee: I think that is a good idea, sixty days.
- Rouse: There are a good many causes. With the small fellows, when you take them in the aggregate, their reasons for having to sell - and the Treasury is reflecting the whole country and you would have a good many instances, undoubtedly, where debts or emergencies of one kind or another might come up. Sixty days seemed to be less of a handicap and still do the job.
- McKee: The thing that is still foggy in my mind, does it become a registered security after sixty days? You are not going to give them a coupon security after that, Dan? You are putting the burden on the Treasury here for more registered bonds. That is an expense that....
- Bell: He would be given the same right as every registered bondholder.
- Ransom: But he has first got to take his registered bond.
- Harrison: But on the sixty-first day he could convert it and sell it.
- Bell: That is right.
- Rouse: The speculator has been the one who didn't want to put up any money at all, practically speaking, just in and out and takes the profit.
- Bell: Puts up ten percent and gets the profit and then he is out.
- McKee: But Rouse, how is this going to get the fellow that put in a lot of names for one particular account?

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- Rouse: He would get the flat rate allotment.
- Bell: No, he means the fellow that puts in a lot of names for the subscriptions to the thousand and five thousand.
- Ransom: The padded subscription.
- Rouse: The rich man who is trying to do it for a lot of members of his family?
- McKee: Or even an institution that wants fifty thousand dollars and puts in ten of these subscriptions at five thousand dollars each in fictitious names or names in the organization or something else.
- Rouse: I think we will have to be as alert in policing as heretofore.
- Harrison: It will give you sixty days to police instead of three or four.
- Bell: They could still do that but they would have to have some understanding at the end of sixty days that the man who gets the securities would convert from a registered holder to a coupon holder and turn the coupons over to the institution. If he dies in the meantime, they are going to have a hard time proving they own that bond.
- H.M.Jr: If some bank or person did that, we would catch them at the end of the sixty-first day, wouldn't we? I think it is worth trying. I think the boys have thought up something good.
- Ransom: Is there any limitation as to amount?
- H.M.Jr: Five thousand.
- Bell: And each person is only entitled, of course, to one subscription. He can't subscribe to the five thousand registered and fifty thousand of coupons. Just one subscription is all he can put in.
- Ransom: Got to have different names.
- Bell: Unless they come under different names, yes.

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H.M.Jr: Has anybody got any afterthought?

Harrison: May I ask whether there has been any decision about the refunding? Is it contemplated that you are going to do that along with the cash?

H.M.Jr: No, it just depends. As I told Colonel Pope this morning, I am not as young as he is. He wanted us to go right ahead and do this thing. This is the first time we have had cash. It will most likely go all right, but I would rather do it and then wait a couple of weeks and see what happens.

Harrison: What would be your plan about the refunding?

H.M.Jr: I would like to do it in two weeks.

Harrison: You mean on the fifteenth?

Bell: Eleventh or twelfth.

H.M.Jr: Eleventh or twelfth. That is why I am crowding this a little bit, so as not to get too close to Christmas.

McKee: If something happened in the interim, when this new money is taken and there is a resale of these bonds, it is going to penalize you for your million three.

H.M.Jr: Then I might have to wait a month or two.

McKee: But you have still got that option.

H.M.Jr: Did you fellows decide when you were going to date these?

Bell: The eighth.

H.M.Jr: Is that all right?

Rouse: Yes.

McKee: On a tax maturity, Dan?

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Bell: Yes, tax maturity.

H.M.Jr: But they will pay on the eighth.

Bell: That is right. It will be an odd coupon for the first one.

Ransom: It falls on a quarter date.

Bell: Yes, on December fifteenth.

H.M.Jr: Is there anything else?

Bell: I don't know whether you wanted to mention this reservation for the Government investments.

H.M.Jr: Tell them about it.

Bell: I think the last time we talked about the baby bonds, the Secretary said he was thinking about reserving a certain sum for Government investment accounts. This is the first bond, really, that we have put out since we discussed that matter and we want to reserve part of this or we want to issue an additional sum, that is really what we want to do, for Government investment accounts. No sum has been hit upon but I would like to suggest you make it 50 million. That would be issued directly to the Government investment accounts and would be in preferred allotment. It wouldn't go on the market at all.

McKee: That would be an adjustment of your two percent note, is that right, Dan?

Bell: Yes. The two percent notes would come down in many cases.

Pisier: Would that make the total of the issue 600 million, then?

Bell: It might if we had ten percent cash.

H.M.Jr: We figure that we ought to be smart enough to get our own investment accounts in the 100 percent allotment on the ground floor.

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Harrison: You are not going to make them register, are you?

Bell: Most of them are registered.

H.M.Jr: I don't know whether we are smart but we have hung on to our bonds. We may regret the day, but we still own them.

Bell: Most governments do that, the British and all of them.

H.M.Jr: Does anybody see any objection to that?

Rouse: The circular will make it clear.

H.M.Jr: Oh yes, and we will explain it. If the members of the Federal Reserve Board of Washington can stay a couple of minutes, I would like to talk to them on a personal matter.

COPY

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No. 242

AMERICAN CONSULATE

Rangoon, Burma, November 27, 1939.

Subject: War Materials for China; statistics of imports at Rangoon.

STRICTLY CONFIDENTIAL

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

Sir:

I have the honor to report, supplementing information recently transmitted to the Department, that war supplies for China forwarded in transit through Burma during the period from September 30 to October 13, 1939, were valued for Customs purposes at Rupees 4,117,317, or \$1,441,061 at exchange of 35 cents to one rupee. Statistics relating to the supplies in question are enclosed herewith.

The transit shipments during the period mentioned increased the value of all war materials re-exported to China from Burma to Rupees 79,021,495, or approximately \$27,657,523.

Respectfully yours,

Austin C. Brady
American Consul

In quintuplicate to the Department

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ACB

CONFIDENTIAL

WAR MATERIALS FOR CHINA

Statistics of imports at Rangoon inspected and passed for transit by the Burma Customs authorities during the period September 30—October 13, 1939.

<u>Type of Material</u>	<u>Number pkgs.</u>	<u>Description and quantity</u>	<u>Country of origin</u>	<u>Value Rupees</u>
<u>Aeroplanes parts</u>	2	No description	United States	6,970
<u>Explosives</u>	1000	T.N.T.; 100,000 kilograms	<u>Finland</u>	129,930
	1	T.N.T.; 40 kilograms	Italy	55
	160	Tetryl; 4,000 kilograms	Sweden	20,529
	2204	T.N.T.; 50,000 grams	Great Britain	75,877
<u>Powder</u>	1000	Smokeless; 50,000 kilograms	Sweden	170,102
	400	Gunpowder for shells; 20,000 kilograms	<u>Finland</u>	73,264
	300	Gunpowder for shells; 15,000 kilograms	Sweden	55,156
	200	Gunpowder for shells; 10,000 kilograms	Germany	44,954
<u>Shells</u>	2902	81 mm. mortar; 50,000	Finland	149,749
	1865	81 mm. Brandt mortar; 10,000	France	1,120,000
	1200	60 mm. mortar; 30,000		
	960	60 mm. Brandt mortar; 24,000		
<u>Mortars and parts</u>	100	Brandt 81 mm., with accessories; 20	France	280,831
	50	Brandt 60 mm., with accessories; 50		
	26	Metallic and wooden cups for transport of projectiles; 160		
<u>Cartridges</u>	16500	7.9 mm.; 33,000,000	<u>Finland</u>	<u>1,989,900</u>
		Total		4,117,317

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WAR MATERIALS FOR CHINA

Imports at Rangoon inspected and passed for transit during the period from
September 30 to October 13, 1939.

RECAPITULATIONVALUES BY COUNTRIES OF ORIGIN

<u>Country of origin</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Finland	2,342,843	819,995
2. France	1,400,831	490,291
3. Sweden	245,787	86,025
4. Great Britain	75,877	26,557
5. Germany	44,954	15,734
6. United States	6,970	2,440
7. Italy	55	19
Total	4,117,317	1,441,061

VALUES BY TYPES OF MATERIAL

<u>Type of Material</u>	<u>Unit</u>	<u>Quantity</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Cartridges	No.	33,000,000	1,989,900	696,465
2. Shells	"	114,000	1,269,749	444,412
3. Powder	Kgs.	95,000	343,476	120,216
4. Mortars, parts	No.	70	280,831	98,291
5. Explosives	Kgs.	154,040	226,391	79,237
6. Airplane parts	—	—	6,970	2,440
Total			4,117,317	1,441,061

November 27, 1939

To: The Secretary

From: Mr. Hanes

Victor Mallett, Counselor of the British Embassy, and recently promoted to Minister to Sweden, is leaving Washington on Wednesday. He would like to call at the Treasury tomorrow morning between 11:30 and 12:00 to shake hands with you and to say good-bye. I have told him to come in to see you for just a minute at that time. Is this OK?

JWH

12.00 OK.

CJ

GRAY

PARIS

Dated November 27, 1939

Rec'd 6:02 p.m.

Secretary of State,
Washington.

2839, November 27, 7 p.m.

FOR THE TREASURY.

The news of the appointment by Prime Ministers Daladier and Chamberlain of Monsieur Jean Monnet as President of the Joint Franco-British Coordination Committee to handle the Allies' war purchases has been made public today. The pertinent communique states that the other members of the committee will be chosen depending on the questions to be considered from among the personnel directing the permanent executive committees. It continues:

"The functions of the Franco-British Committee shall be to coordinate the work of the permanent executive committees, to consider all differences of opinion which may arise in connection with the supply and purchases of munitions, of provisioning of coal and other products, et cetera or such important points of principle or priority as may arise, and to coordinate the work of Allied purchasing missions abroad. With respect to this last point arrange-
ments

-2- #2839, November 27, 7 p.m., from Paris

ments have just been made for the coordination of armament and aviation purchases of France and Great Britain in Canada and the United States. In Canada French and British orders will be made through the Canadian War Supply Board.

(END SECTION ONE)

BULLITT

NPL

CJ

GRAY

PARIS

Dated November 27, 1939

Rec'd 5:20 p.m.

Secretary of State,
Washington.

2839, November 27, 7 p.m. (SECTION TWO)

In the United States the existing French and British missions have been placed under the direction of a Franco-British committee of which Mr. Arthur Purvis has been named President.

In addition to the executive committees and the coordination committee it has been decided that whenever it appears necessary the interested French and British Ministers shall meet in conference at Paris or London.

Questions of general policy will naturally continue to be decided by the Supreme War Council".

The JOURNAL OFFICIEL dated November 26 contains several measures regulating French payments abroad. The first is a decree dated November 18 which stipulates that beginning with December 15 next no government expenditure abroad or payments by the government in foreign currency may be undertaken under appropriations subject to budgetary regulations within the prior authorization of the Minister of Finance.

From

-2- #2839, November 27, 7 p.m. (SEC TWO) from Paris

From that date officials abroad responsible for control of undertakings to make payments or for the effecting of payments only within the limits of authorizations notified to them by the Minister of Finance (Article Two). Article Three provides that "authorizations to contract expenditures given prior to the date of application of this decree either under orders of missions or otherwise must be regularized before December 15".

BULLITT

NPL

CJ

GRAY

PARIS

Dated November 27, 1939

Rec'd 6:14 p.m.

Secretary of State,
Washington.

2839, November 27, 7 p.m. (SECTION THREE)

A second decree based on that of October 13 (please see our telegram No. 2499, October 17, 6 p.m. and despatch No. 5304, November 17) authorizes the Finance Minister to fix by arrête the conditions under which purchases and payments on behalf of public services shall be made in countries in respect to which the October 13 decree has not been made applicable. The Minister of Finance may appoint an official in such countries who under his direct authority shall supervise contracts involving expenditures. Without the approval of this official or his representative no payment may be made; and no contract calling for expenditure in the countries concerned will be valid in the absence of such approval. A further official appointed by the Minister of Finance in the respective countries will make the actual payments out of funds placed at his disposal for the purpose.

BULLITT

NPL

RFP

GRAY

Paris

Dated November 27, 1939

Rec'd 5:08 p.m.

Secretary of State

Washington

2839, November 27, 7 p.m. (SECTION FOUR)

These two decrees are implemented by a number of arretes, the first of which provides that the procedure established in the aforesaid decree of October 13 for the contracting of expenditures, the issuance of orders to pay, and the payment of expenditures by the French state above which shall be made applicable in the United States from January 1, 1940. Prior to this date the contracting of expenditures or payments thereon under the procedure outlined in the second decree mentioned above (governing those countries not included under the decree of October 13) shall be made by the "Financial Attache of the French Embassy fulfilling the functions of Financial Comptroller". Further arretes appoint "French Financial comptrollers" in London (Monick), Belgium (?) Rome (Montarnal) Argentina (Aris) and Bern (Vaidie), in those respective capitals to supervise or preaudit French expenditures. In London in addition to Monick, Monsieur Maurice Gautier "Chief of the Accounting Service of the Economic Services at London"

1s

RFP -2- #2839, November 27, 7 p.m. (SECTION FOUR) from Paris
is charged with making actual payments of the French state
there and "with the management under the authority of the
Financial Attache, of the treasury accounts in foreign
exchange opened "before it was the Government of the
French Republic".

BULLITT

NPL:ROW

RFP

GRAY

Paris

Dated November 27, 1939

Rec'd 6:28 p.m.

Secretary of State

Washington

2839, November 27, 7 p.m. SECTION FIVE)

An arrete of the Minister of Armament provides for price increases of metallurgical products: for October 1939 deliveries an increase of 7% over the previous base price is granted; for deliveries from November 1 the price increase is raised to 10%. The aforesaid prices apply only up to December 15, 1939.

Today's AGENCE ECONOMIQUE ET FINANCIERE carries a report from Alexandria that the court has postponed until January 4 a hearing on the appeal against the decision the court of first instance requiring the Suez Canal Company to service its obligations on a gold basis.

During the period November 1 to November 15 deposits in ordinary savings banks totaled 162,000,000 francs and withdrawals 39,000,000.

RECEIVED
 The securities market declined again today partly on profit taking but primarily on increasing nervousness over developments in Finnish-Russian relations and a renewal of fears of a German invasion of Holland. Rentes lost from 15 centimes to 1.80 francs. (END OF MESSAGE)

NPL:ROW

BULLITT

TREASURY DEPARTMENT

136

INTER OFFICE COMMUNICATION

DATE November 27, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

Upon an appointment made this forenoon, the Spanish Ambassador, Don Juan Francisco de Cardenas, called on me at 3:30 this afternoon.

The Ambassador read to me a cablegram which he had received from the Spanish Ministry of Commerce directing him to see me before entering into negotiations with the American Government or its agencies for a credit to cover the export from the United States to Spain of 200,000 tons of wheat. We roughly estimated this to involve slightly over \$5,000,000.

I told the Ambassador that I had nothing to do with the Export-Import Bank, which he should approach on this subject. I told him that my name had been mentioned probably because it was through me that the Spanish authorities had originally submitted their request for a credit from the Export-Import Bank for cotton. I explained how this had come up in Paris last spring. The Ambassador told me that he was, of course, well acquainted with Mr. Sumner Welles in the State Department and Mr. Warren Pierson of the Export-Import Bank, and that he would see these gentlemen directly. In answer to the Ambassador's inquiry of me as to the possibility of his obtaining a credit for the wheat transaction, I could only say that I knew we still had wheat to export, but I was not at all certain that the Export-Import bank had any funds available now. I insisted, however, that Mr. Pierson was the person with whom this matter should be discussed.

Before leaving, the Ambassador told me that he hoped to come in some day before long to discuss silver with the Secretary.



November 27, 1939
2:21 P.M.

H.M.Jr: Hello

Collins: Good afternoon sir.

H.M.Jr: Hello Captain.

C: Yes sir.

H.M.Jr: I just got your memorandum of the 22d about the meeting in Johnson's office.

C: Yes sir.

H.M.Jr: How did he horn in on this thing?

C: Well apparently Watson went back in to him. The first thing I heard, sir, after I talked with you last was a message from him personally and he was talking as though he were talking to the President, although I knew the President had left at 2:30 that day.

H.M.Jr: Yes.

C: And I went to that meeting.....

Operator: Operator.

H.M.Jr: Hello - go ahead.

C:and I went to the meeting and Arnold was there - General Arnold, Colonel Byrnes and there were three youngsters there from Aviation and Navy who didn't have anything to say and didn't know much about what it was as well as Mr. Wilbur.....

H.M.Jr: Yes.

G:and Admiral Spear also of the Navy and we - we talked there for - oh for only a very short time and then Wilbur suggested that it might be a good thing if you could find out how much they wanted.

H.M.Jr: Well I thought it was all settled.

C: No sir, it was not because the figures I got from Summer Welles were just 50% of the figures that they have over there as to what the French said they needed.

H.M.Jr: Just wait a minute - wait a minute.
(Aside to someone: Open the window from the top down)

O.K. Go ahead. I just wanted my window open.

C: Yes sir. The figures that they had over there were twice as much as what Welles said they wanted.

H.M.Jr: I see.

C: So then it was suggested - Byrnes, I think it was, suggested that we get in touch at once, through diplomatic channels, with the French Ambassador and ask him to indicate some person who could talk authoritatively with reference to that and that was what was done and Byrnes said that he hoped that they might have some more on this to-day but I have heard nothing from them so far, sir.

H.M.Jr: O.K. Allright.

C: I'll keep you posted just as soon as the next meeting happens, sir.

H.M.Jr: Thank you.

C: You're entirely welcome, sir.

November 27, 1939.
2:37 P.M.

139

H.M.Jr: Hello

McReynolds: How are you, sir.

H.M.Jr: I'm all right. How is the Administrative Assistant to the President.

Wm.H.
McR: Well I'm first rate, thank you, sir.

H.M.Jr: Listen, Mac, you old so and so - what - what do you want to resign on me for? I thought you were coming back on the 1st of January.

McR: Well all I did was to sit down to this roll to relieve that one and then the boys came along and - you see we couldn't make the shifts on the other case until I was formally off.

H.M.Jr: Now let 's understand each other. In the first place, this is not my suggestion.

McR: Yes.

H.M.Jr: In the second place, is this something that you really want to do? I've got an agreement with you, you know.

McR: Well I'm ready to come back anytime that the President's willing to speak up. I'll be delighted, but I, frankly I don 't see how the situation is likely to change here that will release me in view of their - the development in this personnel field - ah - within the next few months.

H.M.Jr: What you all doing in the personnel field?

McR: Well it's a question of developing this council and developing the Civil Service - the President has given the Civil Service - at least he's put in the budget quite an additional sum for them this year to develop the decentralized administration so as to handle stuff in the field that's been handled here with a good deal of duplication. There's been considerable reorganization down there and I've been trying to get the thing going

so that they'd get real service and the argument for Civil Service exemptions would be eliminated. They've got to put themselves in position where they can render service for the Departments, if they're not to have exemptions and I think it's a bad business to have stuff coming up and every time there's a pressure some place having exemptions from Civil Service. And what I've been trying to work out is a system down there where they could really serve the Departments and we've gotten a pretty fair start on it. We've got these fellows all pepped up and working overtime on it and the President has gone along on giving them a little additional money to expand their field service actively and I think they're going to get along. I, of course, Congress has to go with it.

H.M.Jr: Well the point - you've got to get Congress, huh?

McR: Ah - Congress has got to allow the additional appropriation.

H.M.Jr: Well the point is this. I want you to know that my word with you that the position here is available is there and if this doesn't make any difference I'll sign it but otherwise I don't want to sign it.

McR: That doesn't make a particle of difference.

H.M.Jr: It doesn't?

McR: No - ah - because the understanding that I had over there was that whenever I was available to come back the place was there.....

H.M.Jr: That's right.

McR:and I could come back in it.

H.M.Jr: That's right.

McR: The only reason why I came, as you know in the first place, was because I didn't see any way to duck it - not that I wasn't interested in it - I think there's a job here that needs to be done and I think we're on the way to get it done.

H.M.Jr: Then you'd like me to sign this.

McR: I think so.

H.M.Jr: O.K. Mac.

McR: Have you talked to Mrs. Klotz?

H.M.Jr: About what.

McR: Did she - did she tell you that I didn't forget anniversary present.

H.M.Jr: Yew.

McR: Ah - you see I talked to Herbert about it before you went away.

Operator: (At this point the operator cut-in about Welles having a large meeting in his office and that he would call the Secretary back)

November 27, 1939.
3:52 P.M.

H.M.Jr: Hello

O: Mr. Welles has quite a large meeting in there and he'd like to call you back.

H.M.Jr: Well....

O: He says there's about 25 people in his office.

H.M.Jr: Well I'll have to call him back.

O: He's in the Secretary's office holding this conference.

H.M.Jr: I'll have to call him back.

O: Allright.

November 27, 1939.
4:30 P.M.

H.M.Jr: Hello

O: Randolph Paul

H.M.Jr: Hello

P: Hello

H.M.Jr: Randolph Paul.

P: Yes.

H.M.Jr: Henry Morgenthau, Jr..

P: Oh yes.

H.M.Jr: How are you?

P: Fine thank you.

H.M.Jr: Ah - Mr. Paul. The President personally handed me this tax memorandum which you prepared for him.

P: Yes.

H.M.Jr: Now we're having it studied and the answers prepared that you suggested, you see?

P: Yes.

H.M.Jr: And in talking it over with Johnny we had this thought to make. That ~~sme~~ time toward the end of the week we'll have these answers.

P: Is that the end of this week?

H.M.Jr: Yes.

P: Yes.

H.M.Jr: And I wondered whether you could come down and spend a day with us and go over them.

P: I can come down anytime you say.

H.M.Jr: Well.....

P: What you ought to do is let me know in time so I can get the night train.

H.M.Jr: Well could I leave it this way. Could I have an option on either Thursday or Friday?

P: Either day you say.

H.M.Jr: Because I'm going to invite down two other people at the same time (1) Roswell Magill and (2) Mr. Knollenberg.

P: Who's the second one - I got Magill.

H.M.Jr: You may have heard of him - Knollenberg?

P: Oh surely, yes sir, I took his place in this office.

H.M.Jr: I know you did and I thought that we could sit down with all three of you.

P: Well I think that would be swell. I'd be delighted and as a matter of fact if you want me to spend both days on it, I'll be glad to do it.

H.M.Jr: Well that would be fine but if I could have an option on Thursday and Friday. And what I'm going to do, if they'll agree to come, I'm going to send them a copy of your memorandum so that they can be looking at it before ~~you~~ you come down.

P: That's all right.

H.M.Jr: Because they'll be working.....

P: Well will you let me know - let's see - to-day is Monday.

H.M.Jr: I'll let you know tomorrow morning.

P: Well that's plenty of time or you can let me know - if that's not feasible, you can let me know any time up to Wednesday afternoon.

H.M.Jr: No, I'll let you know definitely tomorrow morning.

P: All right.

H.M.Jr: Thank you.

P: Thank you.

November 27, 1939.
4:38 P.M.

146

H.M.Jr: Hello

Ed.Noble: Hello Mr. Secretary.

H.M.Jr: How are you.

N: Just fine, thanks. I wonder if you could give me a few minutes tomorrow on this Latin-American thing. We've been - just about gotten matters in shape where I'd like to talk now and I saw the President about ten days ago and he suggested that I talk with you.

H.M.Jr: I see. Well now, Ed, is there a sweat - would Wednesday do?

N: Oh surely.

H.M.Jr: What?

N: Just as well. I'll be that much better prepared.
(Laughs)

H.M.Jr: Well if it's South America we..... How about 10:30 on Wednesday.

N: That will be fine.

H.M.Jr: Is that alright?

N: Oh that's fine, yes.

H.M.Jr: I'll be delighted to see you.

N: Thank you very much, Mr. Secretary.

H.M.Jr: O.K.

N: Goodbye.

November 27, 1939.
5:15 P.M.

147

H.M.Jr: Hello Sumner.

Welles: Yes.

H.M.Jr: The reason I've been trying - I don't know whether anyone has told you - I put in a call at a quarter to four.

Welles: No - I didn't talk since the other time.

H.M.Jr: Well I did and I saw this man Jarmilo and he is going to see you at 5:30.

W: Yes.

H.M.Jr: Now I said to him, in the course of the conversation, "When do you expect to hear from your government" because that what you (Welles) told me.....

W: That's right.

H.M.Jr: So he said, "Oh I'm not waiting to hear from my government, I'm waiting to hear from Mr. Jones. He says I have not communicated with my government".

W: Well I'll have to straighten that out.

H.M.Jr: He's been sitting here - I don't know - 8th or 9th of November waiting to hear from Mr. Jones and he's communicated nothing to his government.

W: Well I know that he did by airmail immediately. I know that he communicated with - the full details.

H.M.Jr: Well he said he is not waiting for any instructions from his government.

W: Well I know that he communicated immediately and he told me that he'd let me know as soon as he got the reactions. It may be that, technically speaking, he wasn't waiting for authorization because I assume he came up here with what corresponded more or less to full powers, but I know that he wasn't going ahead until he got their reaction.

- H.M.Jr: Well is he that kind of a person?
- W: Well I think that's more or less correct statement. I don't think it's to the slightest degree - ah - it could be in that sense.
- H.M.Jr: Well he made the flat statement here in front of Gaston and White that he was waiting to hear from Mr. Jones and he was not waiting to hear - to get any instructions from his government and he had not communicated with them.
- W: Well it's one of those things that probably he was - probably he felt that he wanted to get some definite statement from Jones and at the same time he wanted to send down all that he had heard in order to get reactions.
- H.M.Jr: Well I wanted to get that to you.
- W: Yes.
- H.M.Jr: Now the other thing, before you saw him - the other thing was this - in the Herald Tribune on November 23d, on the financial page, they wrote an article about a paper read by A. A. Berle before them in regard to.....
- W: I know what that is.
- H.M.Jr: Nobody in the Treasury has seen it.
- W: All that that was is a series of questions asking for opinions on certain points.
- H.M.Jr: I see.
- W: Ah - he told me this morning, after the meeting of the sub-committee that he attends, that he wanted very much to send up to the Attorney for you, now that it got to the point of clarification - and I told him that I would call you up and arrange for an appointment so that he and I could go together to see you, but before I did that I told him that I wanted to have an opportunity of going over it myself so I'd understand it fully.
- H.M.Jr: Well let's have some understanding between us what part, if any, the Treasury plays in this thing, you see, because Mr. Berle, according to the Tribune

anyway, he made some kind of a statement and....

W: Well there's no statement of any kind made Henry. It was simply a series of questions that he asked the members of the sub-committee to find out what they thought should or should not be the right course to pursue in regard to certain policies.

H.M.Jr: Well this is what the Tribune says.....

W: I saw the Tribune article - it's absolutely incorrect.

H.M.Jr: Well you seem in a rather combative mood this afternoon.

W: No not a bit - the Cuban Ambassador is sitting with me and I'm not at all combative. I'm having a very happy conversation.

H.M.Jr: Well I'm not having a very happy one at this end.

W: (Laughs)

H.M.Jr: And I say again, if we play any part in this thing I think Mr. Berle or anybody else connected with the State Department - if they want any help from me they'd better talk it over with me first and not afterwards.

W: Well there isn't any question Henry of first or afterwards. There wasn't any use in taking up your time or anybody else's time until he knew what the opinion of the other members of the sub-committee were with regard to the policies of their own government. He had to get certain information and he's now reached that stage and he came to me this morning, after the meeting of the sub-committee, and he said, "I think it's now reached the stage where it's worth while discussing it here".

H.M.Jr: Yes.

W: And he then asked if I would make an appointment with you so that you and I could both have a talk with him.

H.M.Jr: Well when you're ready, let me know.

W: Yes. Are we having a meeting tomorrow afternoon?

H.M.Jr: Ah - let me see. I have nothing down.

W: I remember we agreed the other day that we would have a meeting in regard to Jarmilo tomorrow but in view of this I'd better clear that up.

H.M.Jr: I think you'd better.

W: Did Jesse speak to you?

H.M.Jr: Ah - he called me this morning and I wasn't available.

W: He called me this morning and I asked him to call you. Apparently he'll be back on Monday and he wanted an appointment for us to take this matter up next Monday afternoon. Will you be here next Monday?

H.M.Jr: Oh yes.

W: Well could you set some time aside.

H.M.Jr: Surely - ah - I was asked yesterday by the State Department that Ambassador Bullitt made an appointment for me for tomorrow afternoon.

W: This is for next Monday - a week from to-day, Henry.

H.M.Jr: Sure - sure. Ah - Tuesday is better for me than Monday though.

W: It is.

H.M.Jr: Much better. I'll hold 3 o'clock next Tuesday.

W: Well let's make it definite.

H.M.Jr: Definite.

W: Tuesday - a week from tomorrow at 3 o'clock.

H.M.Jr: Now let me just take a look. Just a second. It's all clear.

W: Fine. Now on this other matter, I'm going to see you tonight and I'll tell you then what the situation is.

H.M.Jr: Oh yes.

W: And - but I would like to come over then with Adolphe Berle tomorrow afternoon, if you can get some time free.

H.M.Jr: Well now let me see - this - 3:30.

W: 3:30 will be fine but please don't make it one of those large meetings because all he has in mind is certain questions here which he wanted to talk over with you.

H.M.Jr: Will it be too large if I'm present.

W: No I mean just you and myself and himself.

H.M.Jr: (Laughs) O.K. (Laughs)

W: Thank you Henry. See you later.

H.M.Jr: Righto.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 27, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending November 25, 1939.

Conclusions

(1) Our basic business indices, now available for October, indicate that industrial production is probably near its top for the time being. A moderate setback in the seasonally-adjusted FRB index seems probable during the early part of next year, but production will be supported for a considerable time by the present large backlog of unfilled orders.

(a) While new orders in October continued at the high September level, much in excess of production, more recent weekly data show a falling off in orders.

(b) Our basic demand index shows that production in October reached an approximate balance with demand.

(c) The offtake of manufactured goods, while substantially higher than in September, remained somewhat below the level of production.

(d) The estimated inventory index increased but slightly.

(2) The prospect of a further recovery later in 1940, assuming that the war continues, is favored by a lack of speculative maladjustments in the current situation, by an improving trend of domestic demand, by a strong position of the automobile industry, and by the prospect of increased export sales.

(3) Some element of weakness, however, is seen in the large dependence of industrial production currently upon the capital goods industries. The ratio of durable to nondurable goods production in October appears high on the basis of experience in recent years. But it is possible that the long period of underexpansion of industrial capacity, coupled with increased capacity requirements for armament production, may make this ratio of less significance.

The business outlook

An additional month of business statistics now available shows that industrial production is probably close to a top for the time being, and suggests the probability of a moderate decline in the FRB index during the early part of 1940. This conclusion is based on the following evidence:

(1) During October, industrial production reached the approximate level of our basic demand index. Since the volume of orders on manufacturers' books seems large enough to prevent the usual seasonal decline in production during November and possibly December, the adjusted FRB index is likely to show a further rise in this period, probably to above the level of basic demand. The situation will thus be somewhat similar to that at the end of 1938, which was followed by a setback in early 1939.

(2) Since no heavy speculative movement is under way, production should not greatly exceed the basic demand level before some corrective adjustment begins. Conversely, the lack of speculative maladjustments should hold any corrective movement within rather narrow limits.

(3) The offtake of manufactured goods, as represented by our index of sales (Chart 1), has not risen as rapidly as production. This is partly due to the Chrysler strike, which has held back automobile sales, and to the usual lag in retail store sales, but it also reflects in some degree the dependence of the current business rise on expansion of industrial capacity rather than on actual sales.

(4) The ratio of durable to nondurable goods production in October rose to a level that appears high on the basis of experience in recent years. (See Chart 2) This provides ground for caution over the business outlook, although the significance of the ratio may have been diminished by the long period of underexpansion in industrial capacity and by the need of increased capacity for war orders and defense purposes.

Production in balance with demand

The approximate balance reached in October between production and basic demand (see Chart 3) puts the production index in somewhat the same position as in December last year, when it was followed by a moderate setback that was later extended by the effects of the coal strike and other factors.

Secretary Morgenthau - 3

Unless new orders show a renewed upturn, the pressure to expand production will probably not be so great during January and February as during December, hence some recession in the actual level of output is likely to occur. Even if the volume of goods produced in January should be at the same level as in December, the seasonal adjustment of the FRB index would cause a drop of about 4 points in the adjusted index. By March, if no increase in actual output has occurred, the seasonal adjustment would reduce the index by about 8 points.

The automobile situation promises strong support to business next spring, as indicated by the wide margin of basic demand above the current production level. (Shown in lower section of Chart 3) While the underlying demand for automobiles has been improved by increasing consumer incomes (confirmed by a high level of domestic sales this fall), current production has been restricted for nearly two months by the Chrysler shutdown. Although the war has reduced the export demand for passenger automobiles, it has apparently increased the demand for trucks, but exports of the two together have accounted for only 8 per cent of total production during the past five years.

Steel production and textile production are currently above their basic demand levels. An increase in automobile production, however, would increase the basic demand index for steel. A recent decline in textile orders confirms the moderate overproduction in that industry, but the situation may soon be remedied by the improving demand for textiles due to rising consumer incomes.

Unfilled orders unusually large

Of major importance in the current business outlook is the volume of unfilled orders, and the probable period in which they would sustain production if new orders fell off. Available data on unfilled orders are very fragmentary and inadequate. It is possible, however, to work out an approximate index of the volume of orders remaining to be filled by comparing industrial production month by month with our composite index of new orders. Such an index, shown in Chart 4,

Secretary Morgenthau - 4

indicates that the volume of unfilled orders increased further in October, and at the end of the month was apparently even larger than that in the spring of 1937.

In the upper part of Chart 4 we compare the FRB index of industrial production with our new-orders index, expressed in terms of its production equivalent. In September and October, when the FRB index (unadjusted) stood at 112 and 123, respectively, the new-orders index reached an FRB equivalent of 147 for both months. Whenever the level of production is lower than the level of new orders in a given month it may be assumed that unfilled orders have increased by approximately the amount of this difference, and vice versa. By adding (or subtracting) the differences between the two indices, a cumulative figure is obtained which may be used as a measure of unfilled orders (lower section of chart).

Three outstanding instances will be noted in which new orders and production declined sharply after a considerable rise. In two of these instances, 1933 and 1937, when the index of unfilled orders was high, production was maintained considerably above the new-orders level for about half a year after the drop in new orders. In 1934, when the unfilled orders index was rather low, production promptly declined.

The present volume of unfilled orders is apparently large enough to provide a strong supporting factor for production over a considerable period, as in 1933 and 1937, if new orders should fall below the production rate. While our monthly orders index for October remained at the high September level, weekly data reveal a considerable downturn in steel and textile orders during the latter part of October and early November.

Note should be taken of one qualification on the index of unfilled orders, namely, that it may be affected to some extent by changes in stocks of finished goods held by manufacturers of those goods. If manufacturers currently are producing partly to build up stocks, for example, instead of delivering their entire production against orders, the actual volume of unfilled orders would be even larger than suggested by our index.

Inventories remain low

Our estimate of inventories (shown in Chart 5) showed no more than a slight upturn in October, doubtless because any potential accumulation of inventories remains in the "new orders" stage, and because some part of current production is going into capital equipment rather than inventories. In any event, the inventory situation remains healthy, particularly in view of the need for larger stocks to handle an increased volume of business.

Commercial loans, which provide an indication of the volume of goods being carried by manufacturers and dealers, increased noticeably during August and September, as indicated on the chart, but gained only slightly in October. Commercial loans of reporting member banks in New York City reached a new high for the current movement during the week ended November 22. Much of the recent gain, however, represents borrowing by finance companies in connection with installment sales of automobiles and trucks. Tending to confirm an increase in installment sales, our sales index in October rose above the estimated sales equivalent of national income, almost entirely because of increased sales of automobiles.

Current business news

The New York Times index for the week ended November 18 was off 1.3 points, the first setback since the week ended August 5. Substantial declines in the indices of automobile production, electric power production, miscellaneous and "all other" carloadings more than offset upturns in the indices of steel and lumber production.

The new orders index for the third week of November recovered part of its previous holiday-week drop, rising 7.6 points to 109.0. Steel orders increased substantially, but textile orders declined to the lowest level since the July 4 holiday week. With the exception of that of the previous week, the total index is lower than any other since the first week of September. A decline in new orders is usually to be expected during the last two months of the year, and largely accounts for the seasonal decline in actual industrial output at that time.

The very heavy buying of textile goods in September has been followed by a period of dullness in the textile markets while the earlier orders are being absorbed. Orders in the

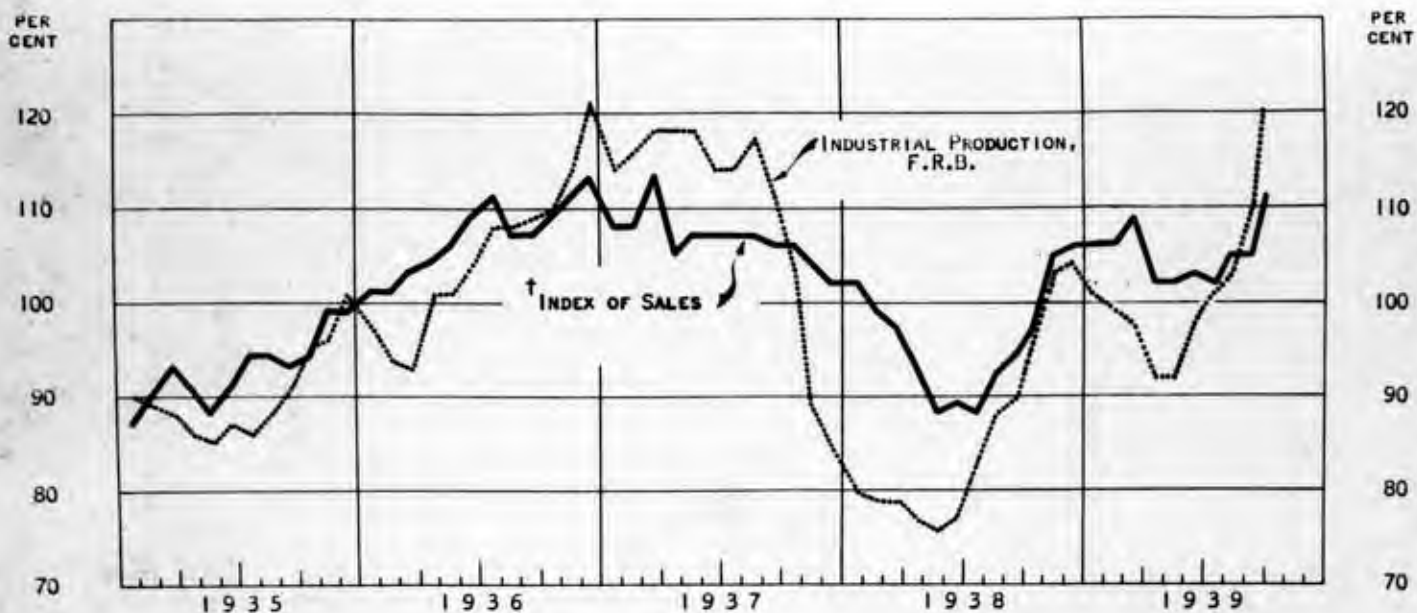
Secretary Morgenthau - 6

hands of textile mills, according to trade reports, assure capacity operations through the remainder of the year. An increasing volume of apparel sales in recent weeks may soon result in substantial orders of various cotton goods for first quarter delivery.

Sensitive commodity prices in recent weeks have shown little response to the increased industrial demand, apparently reflecting various deflationary influences arising from the uncertainties involved in the war situation. Moody's index of spot prices has gradually sagged, while the Dow-Jones index of futures prices (shown in Chart 6) has held about unchanged for a number of weeks, though showing a rising tendency in the past few days. In the lower section of Chart 6 we show fan-chart comparisons of the price trends of 11 individual commodities (1) from August 31 to the September high; (2) from the September high to November 22; and (3) during the entire period from August 31 to November 22.

INDEX OF SALES[†] COMPARED WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100



[†]REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

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

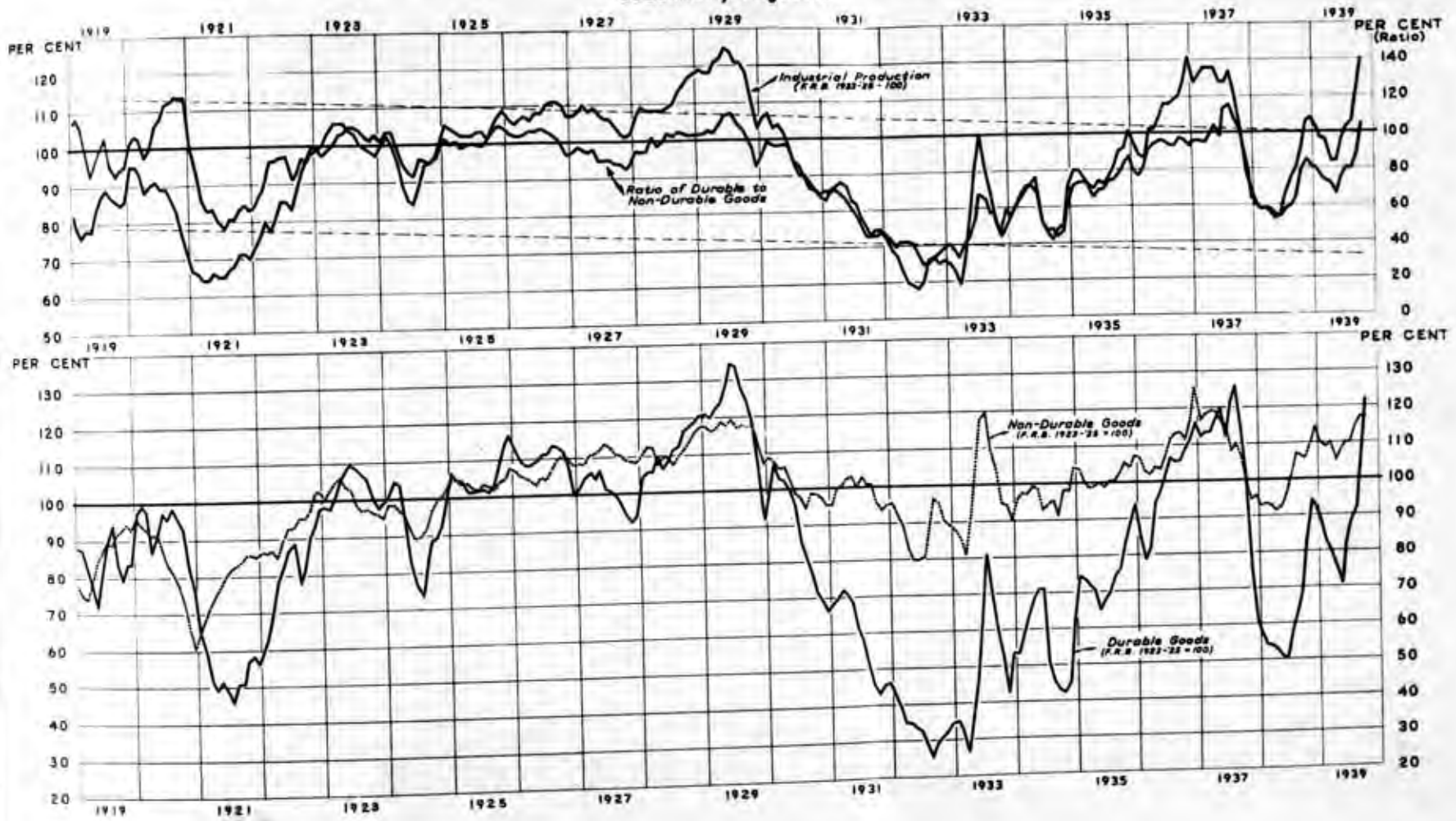
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Chart 1
CONFIDENTIAL

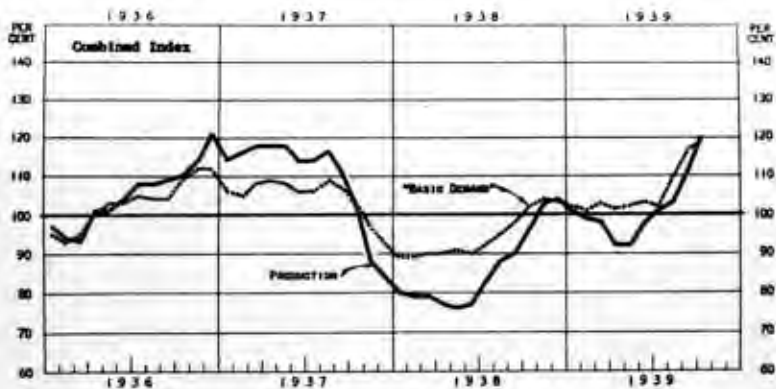
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INDUSTRIAL PRODUCTION. AND DURABLE AND NON-DURABLE GOODS PRODUCTION Seasonally Adjusted

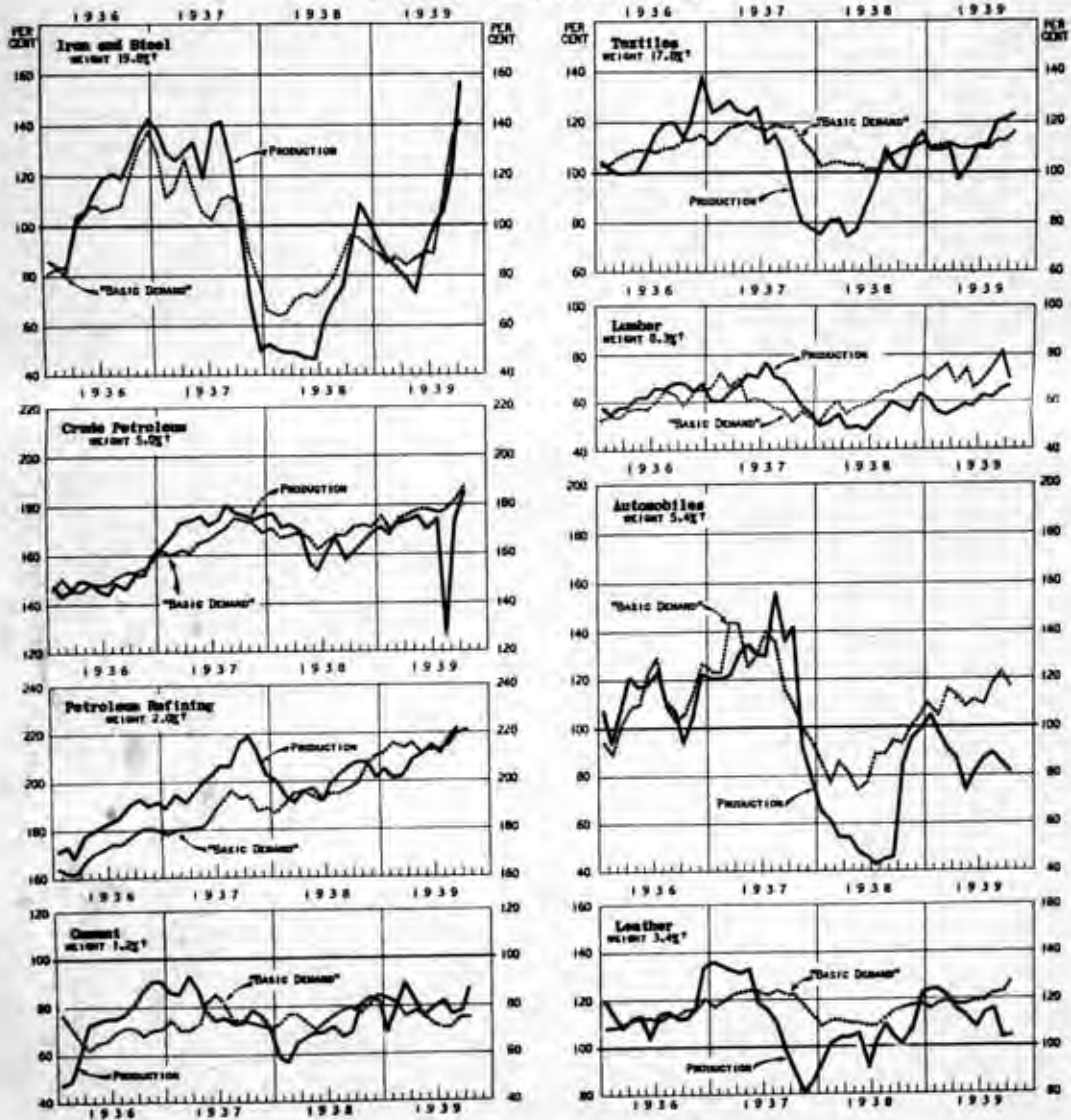


Office of the Secretary of the Treasury
Bureau of Economic and Statistics

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1923 = '25 = 100, Adjusted



Selected Industrial Groups

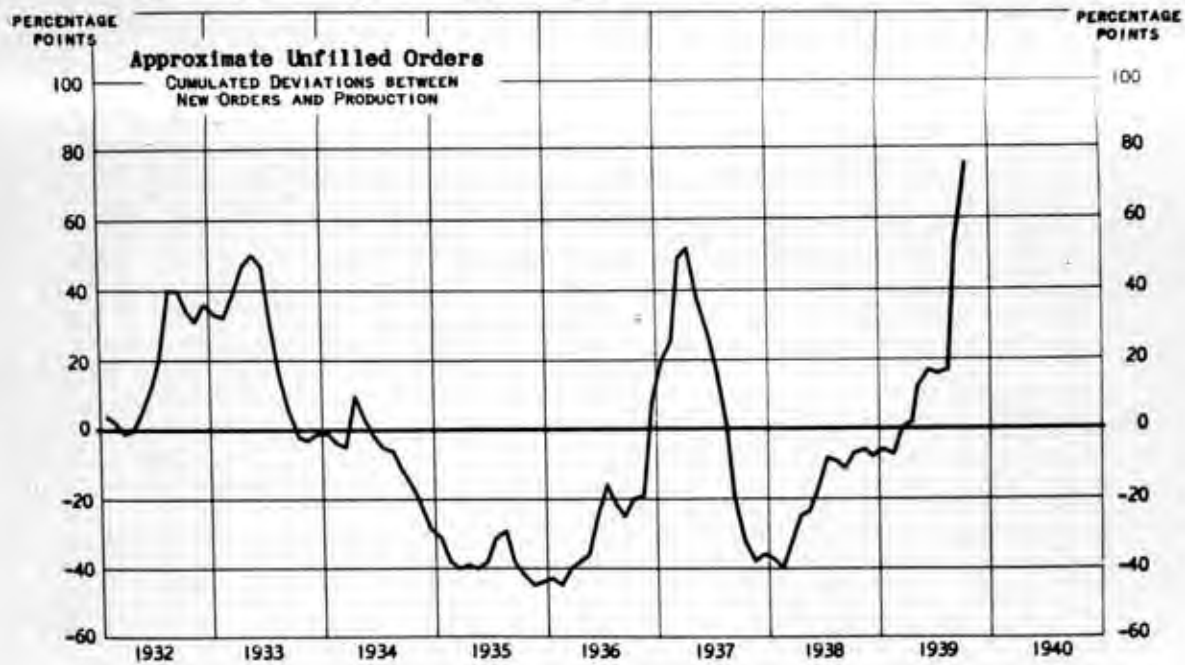
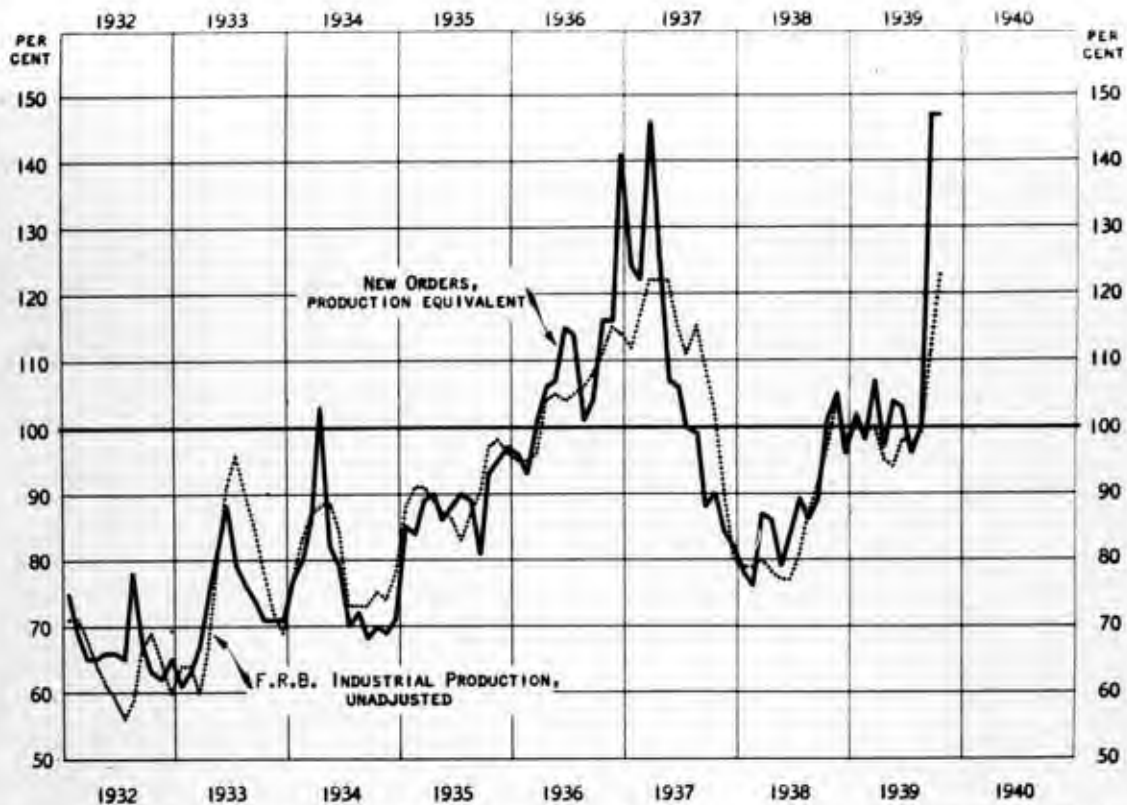


NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES

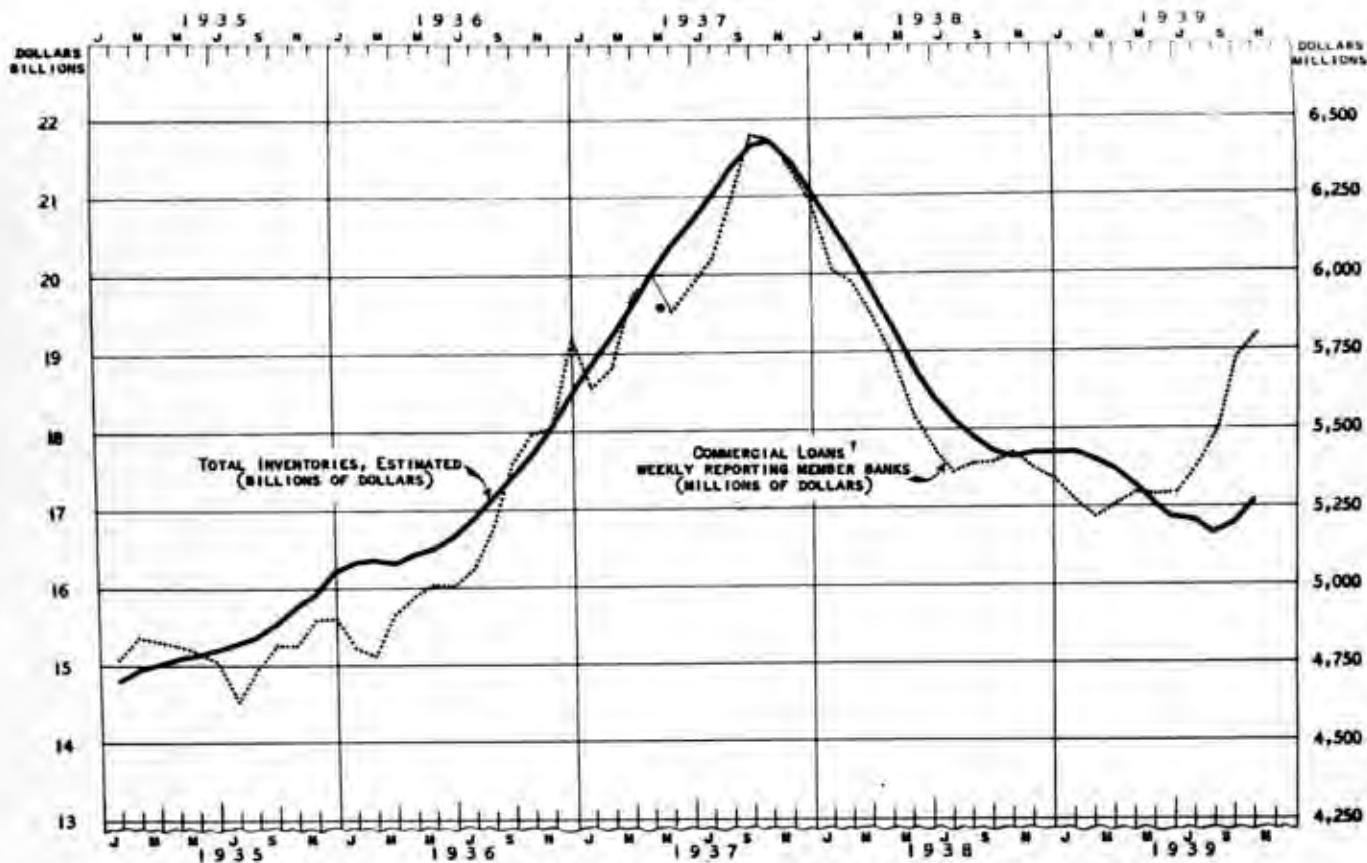
* WEIGHT IN COMBINED INDEX

INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION
SHOWING APPROXIMATE UNFULFILLED ORDERS

1923 - '25 = 100



ESTIMATED INVENTORIES AND COMMERCIAL LOANS¹
At End of Month



TOTAL INVENTORIES, ESTIMATED
(BILLIONS OF DOLLARS)

COMMERCIAL LOANS¹
WEEKLY REPORTING MEMBER BANKS
(MILLIONS OF DOLLARS)

² CHANGE IN COMPOSITION OF SERIES ON COMMERCIAL LOANS BEGINNING MAY 1937

¹ SERIES INCLUDES COMMERCIAL, INDUSTRIAL, AGRICULTURAL AND REAL ESTATE LOANS,
AND OPEN MARKET PAPER

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

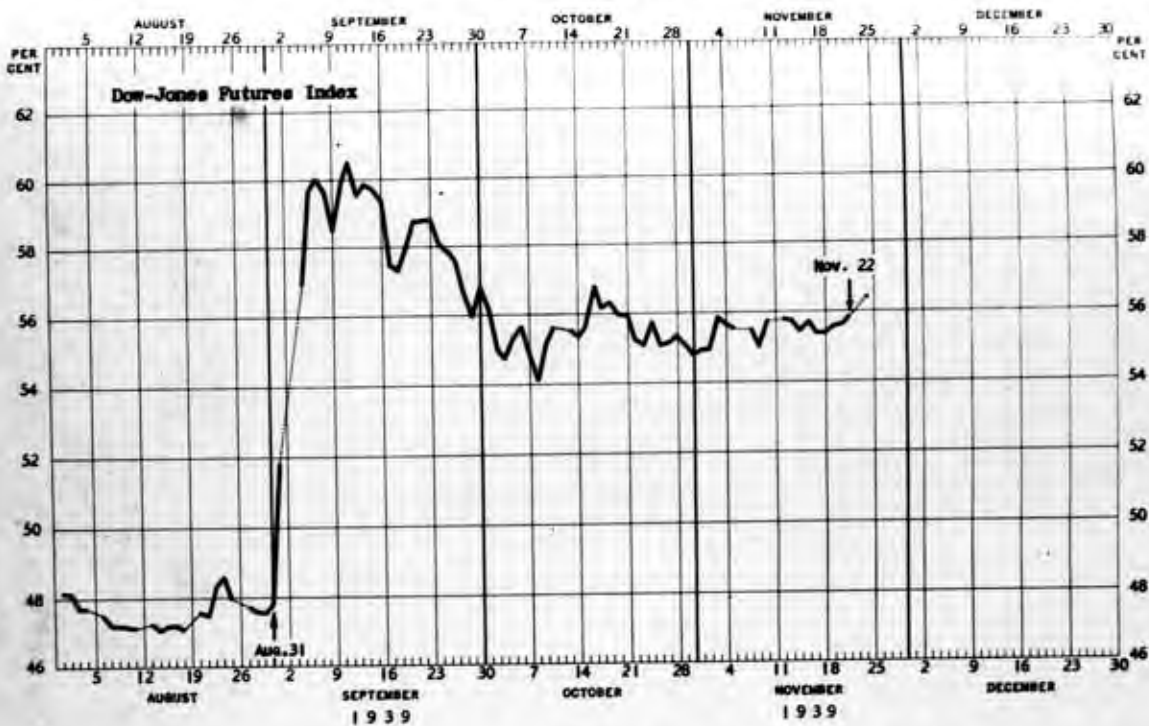
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Chart 5
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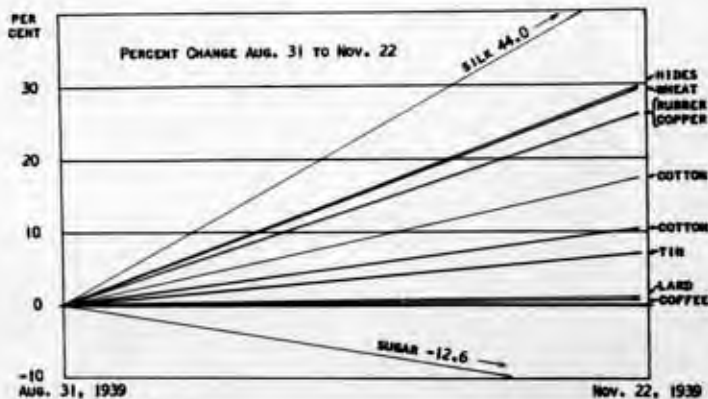
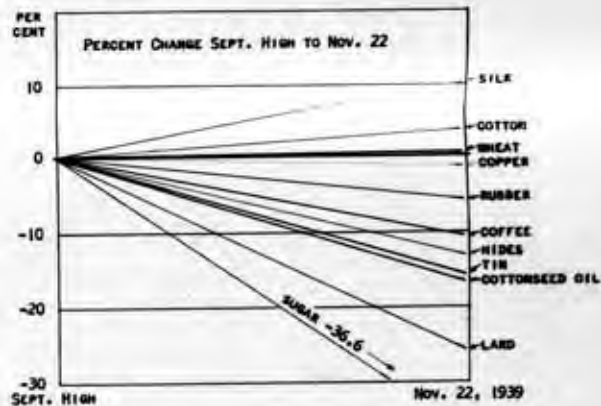
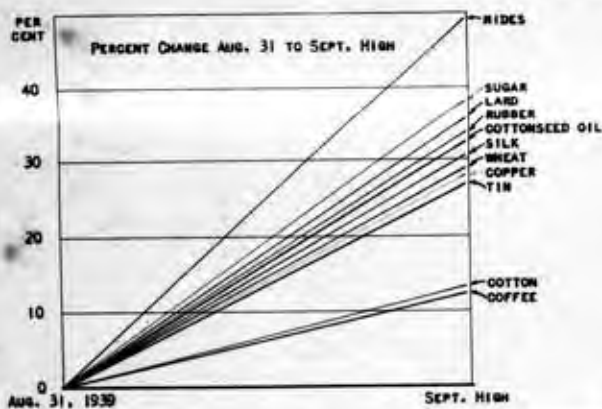
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MOVEMENT OF PRICES OF COMMODITY FUTURES

August 1939 to date



Percent Change in Selected Commodity Futures*



* DECEMBER FUTURES EXCEPT SUGAR, WHICH IS JANUARY FUTURE.

November 27, 1939

To: The Secretary

From: Mr. Hanes

The Minister from Finland, Mr. Procope, called on me this morning and asked that I deliver a message to you to the effect that he was notifying us informally of Finland's desire to meet their debt obligation on December 15th. The Minister stated that it would be very desirable if you would agree to allow him to come in person on that day and deliver to you Finland's check.

He seemed very much interested in having the proper publicity surround this gesture on the part of Finland. I told him that I would transmit his message to you.

He was desirous of discussing the question of a credit to Finland but I told him that this was a matter which I could not discuss with him owing to the fact that the whole matter had been turned over to Mr. Jesse Jones to deal directly with the Finnish Government.

JWH

November 27, 1939

To: The Secretary


From: Mr. Hanes

The Minister from Finland, Mr. Procope, called on me this morning and asked that I deliver a message to you to the effect that he was notifying us informally of Finland's desire to meet their debt obligation on December 15th. The Minister stated that it would be very desirable if you would agree to allow him to come in person on that day and deliver to you Finland's check.

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JWH:ce



TREASURY DEPARTMENT
WASHINGTON

November 27, 1939.

MEMORANDUM FOR THE SECRETARY'S FILES:

After the meeting this morning with the Executive Committee of the Open Market Committee of the Federal Reserve System, the Secretary asked the members of the Federal Reserve Board who were present to remain behind as he wanted to talk to them about a personal matter. Those who stayed were Mr. Ransom, Mr. McKee, Mr. Draper and Mr. Skymczak. He also called in Mr. Hanes.

The Secretary told the group that he had tried to eliminate the differences between the Treasury and the Federal Reserve Board and particularly he had tried to confine whatever differences there were to the conference room and to keep them out of the newspapers. He said that he was quite certain that the members of the Board present know how impossible it is for any Cabinet Officer or any Member of the Federal Reserve Board or any representative of other Government agencies to make a public statement or speech in which it was said that the speaker is expressing his own personal views without having that statement or speech considered as an expression of official opinion of the organization where the individual is employed. He said, for example, that Mr. Hanes, as Under Secretary of the Treasury, could not make a public statement and contend that it represented only his individual viewpoint and not the Treasury's, and that applies to every other individual

holding a high office in the Government service.

The Secretary said that about 4:45 p.m., November 8th, Chairman Eccles called him on the telephone advising him that he would like to go away for a period of ten days or two weeks if the Secretary had no objection. The Secretary said he had nothing to discuss with him and thought that in view of the fact that it seemed to be quiet it would be a good time for him to go away. He then asked Chairman Eccles if he had any questions he wanted to ask him before he left. Chairman Eccles replied that he did not have. The Secretary then said that with all this preliminary, which was apparently intended to indicate cooperation on the Chairman's part, he certainly was quite surprised to read on November 9th that Chairman Eccles had delivered a speech in St. Louis in which he outlined a tax program. While Chairman Eccles explained in his speech that he was expressing his own personal views, yet he did not think that anyone outside looked on those views as Mr. Eccles', but thought they also represented the Board's, as well as the Administration views. The Secretary said he did not think it was playing the game of cooperation as we had agreed upon and to put it mildly he was quite sore about it. He said that he was certain the Members of the Board would not expect him to make a statement or a speech on Federal Reserve policy without first consulting the Board.

Mr. McKee said that he could understand the Secretary's attitude on the matter; that he wanted to assure him that so far as he knew, no member of the Board saw Mr. Eccles speech or had any idea what he

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was going to talk about. The other members of the Board confirmed this statement. Mr. McKee did say that in view of the fact that Mr. Eccles is an Administration man and had been called upon by the President on numerous occasions in the past to carry the ball on certain Administration matters, he would naturally assume that the Chairman in making any speech of the kind he did would first consult the President. Whether he did or not, he didn't know; neither did any of the other members present.

Mr. Hanes said that in view of what was being discussed at this meeting he thought he was called upon to make a statement; that the statement he made to the press was made on his own account without consulting the Secretary; that he told the press he didn't believe that Mr. Eccles was speaking for the Administration; he was reasonably certain that he didn't speak for Congress; and he was absolutely certain he didn't speak for the Treasury; that the only reason he made any reply at all was that he felt it necessary in loyalty to his chief, Secretary Morgenthau; that this was in effect an attack upon the Secretary and he was not going to let it go by unnoticed.

All Members of the Board agreed that it would have been far better and more in line with the spirit of cooperation if the Chairman had consulted the Secretary before he made this speech. They also expressed appreciation for the cooperation they had had from the Treasury officials, from the Secretary down, and they thought they would all work together much better if this would continue.

sub

RE INCREASED REVENUES

November 27, 1939.
3:30 p.m.

Present: Mr. Hanes
Mr. Tarleau
Mr. Blough
Mr. O'Donnell

H.M.Jr: I gave the people a report this morning which was forwarded by me - by the President to me from one Randolph Paul. I am having it stenciled and it isn't finished yet. As soon as it is finished, would you (reporter) make a note for Mrs. Klotz that each person here get a copy of that?

The thought that Mr. Hanes and I had was that we would get you people started on certain revenue matters, and if you could do this for me - I don't know whether Mr. Hanes needs it - if you could boil the thing down - you see there are two sections, one to raise revenue and one which talks about loopholes, but if you could boil the thing down a little bit more in my kind of language, it would be sort of helpful.

Hanes: I think I speak a language here that is pretty plain about this tax situation. I might start out and let Roy fill in the places where we have to get the technical side of it. I said to Roy as soon as I read the President's message, I thought we ought to get to work and produce something to get thinking on, in other words, quickly, as to how we could raise 500 million dollars of revenue if we are called upon to do it, having in mind first that we are not proposing anything other than saying, "Here are the various ways in which we could, if we had to, raise 500 million dollars." So Roy has separated each one of these in two different optional ways of doing it, depending upon the policy adopted by the Administration in the final analysis as to how it wants to proceed. It may be that - doubtless will be that a combination of each of these - combination of all these options would be thrown together so the tax on any one won't be up too greatly in any one category.

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His first option - if the Administration should decide that we will get this whole 500 million dollars out of income tax - as I say, we are taking it that way and when I get through with this I will give you a broad outline of how we could combine the options, put them together and take the 500 million out of all options combined.

There are ways that we can raise from the individual income tax by reducing the personal exemptions to \$800 for single individuals and \$2000 for married persons and raise, thereby, about 50 million dollars.

The second place in the income tax, we could limit the earned income credit to 10 percent of the excess of earned net income over the sum of the personal exemption and credit for dependents, but not to exceed 10 percent of the surtax net income. We could get from that about 18 million dollars more, 18 million nine.

Third, we could increase the normal tax rate from four to six percent and get out of that 136 million dollars.

Fourth, we could increase the surtax rates by adopting a rate schedule imposing the heaviest increases on incomes between \$7500 and \$75,000 and we could - depending on the height of the raise that we wanted to use, we could get out of that anything you want up to 240 million dollars. That is one way of....

Blough:

Might I say one word on that? I think it is quite clear that any way we raise 500 million dollars is going to come out of somebody's income in some way or another. The fact that we are getting now about, say, one billion one hundred million dollars from the income tax means that if we increase the yield 500 million dollars, people on the average will have to pay just about one half more personal income tax than they are now.

Hans:

That is Option 1, taking the individual income tax. Option 2 is trying to get it all from the estate and gift taxes, and that calls for a schedule such

- 3 -

as we had worked out one time before for the President in which we figured to get some 250 million dollars out of the estate and gift taxes. Six different elements in that that go to make up that particular raise, such as changing the specific exemption from \$40,000 to a specific exemption determined by aggregating a number of exemptions which are stipulated here. Then by eliminating the \$40,000 estate tax, then by decreasing the annual allowance of tax-free gifts per donee from \$4,000 to \$2,500 and then by reducing the specific gift tax exemption from \$40,000 to \$15,000 and five and six by increasing the general rates, over-all rates on all estate and gift taxes.

H.M.Jr: Have you got that for me?

Hanes: Yes. I have some penciled figures down there showing the amount of tax to be derived from each one of these.

H.M.Jr: Would you rather give it to me tomorrow?

Hanes: No, you keep that one.

Option 3 is taking it from the corporation taxes. If we try to get it all out of the corporations, what it means in effect is raising the present tax on corporations from 18 percent by $7\frac{1}{2}$ percent, in other words, about $25\frac{1}{2}$ percent would be your corporation tax rate.

Your next option, number 4....

H.M.Jr: Raising it $7\frac{1}{2}$ percent?

Hanes: Raising it from 18 to $25\frac{1}{2}$ percent, that is right.

Blough: Yes.

Hanes: The next was Option 4, which was the special excise taxes, only. You could get it by increasing the gasoline tax; increasing taxes on beer and distilled spirits; increase by 50 percent the rates on taxes of the manufacture of cigars and snuff; substitute for the present taxes on the transfer

- 4 -

of bonds and base the tax on the sales price; reenact the check tax; reduce the present exemptions under the 10 percent admissions tax from 40 to 20 cents; seven, impose an import tax on tea and coffee; and eight, increase the excise tax on passenger automobiles.

Blough: And other things too numerous to mention.

Hanes: Option 5 is a general producers' sales tax on value added. That amounts to, in effect, a gross tax on corporations. All corporations earn a gross income of about 30 billion dollars, so a two percent gross tax would bring 600 million dollars.

Option 6 combines Options 1 and 5 in a manner calculated to balance the taxes among a variety of methods. Now, just taking from these things....

H.M.Jr: Excuse me. You (Blough) fix this up some, giving me at the top of each page the....

Blough: I am sorry, Mr. Secretary, the difficulty is that we would then have to submit specific rate schedules. If you wish those....

H.M.Jr: You have got a....

Blough: What we are saying is, we can raise 500 million dollars by these methods. If you want to see what it would mean in terms of rates, then we will produce specific rate schedules which will turn the trick.

H.M.Jr: I think you have got to do it.

Hanes: It seems to me that we have got an approach - I don't think this thing - of course, we are not ready yet to talk specific things, but I do think we can approach it. If you were called upon to talk to the President, I don't think you could go over there with a lot of options. I think you have got to go over there and say, "Here are three ways you can raise 500 million dollars. Take your choice." Or four ways, or six ways, by a combination of all these things, and let him say what the policy is going to be. You will go back and raise enough

- 5 -

taxes from those things, knowing the policy, such as this. For instance, we were just speaking there before we came in here, by a combination of all these things, we could reduce the exemptions and raise 50 million dollars. Increase the normal tax rates by two percent, we would raise 136 million. If we would increase the surtaxes between \$7500 and \$75,000, we would raise 120 million, and then raise the - I mean increase the estate and gift tax by enough to raise another 120 million. Then take another specific item, such as maybe excises or whatever we decide to go for and raise it by an amount to make a total of 540 million dollars. I say 540 million because it would simplify the situation tremendously if at the same time we do this we lower the surtaxes to get the same amount of dollars from the tax on incomes but to lower the surtax to the rates where the fellow says that, "My Government is not being unfair to me, it is taking 50 percent and leaving me with 50 percent...."

W.M.Jr:

Lowering the surtaxes to where?

Hanes:

50 percent. That would cost us 40 million dollars. So I say raise 540 million dollars new taxes and take your surtaxes back to 50 percent then you have got 500 million. I don't know if I have ever made clear - I am trying to make clear to everybody that it isn't the total number of dollars that I want to reduce the tax on the surtax, it is the psychological impact of that 50 to 79 percent which creates a stagnation in the minds of people that might otherwise do something with their money besides hide it in tax-exempt bonds. Therefore, I say, raise the middle bracket enough to take from the higher brackets just as much money as you are taking from them now in dollars so that the reduction in dollars - there is not going to be any reduction in dollars. Raise those middle brackets by enough - because the fellow in the high bracket pays in every bracket. He goes from 4 percent to 79 and pays in every bracket, so raise that middle bracket high enough to catch that fellow all the way up to a \$75,000 limit and make your \$75,000 limit your maximum surtax beginning, if you like. Lower the position of your maximum surtax if you will, so

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as to get that fellow to pay just as many dollars as he is paying now. It isn't the high rate, it is the unfair rate I object to.

O'Donnell: John, in mentioning it to the President, I think the Secretary ought also to bring out the thing I discussed in there, namely, that if we devote our attention to income tax and estate taxes, there will be quite a lag in the realization of the increased revenue as contrasted with any expenditures we may anticipate in connection with national defense. In other words, the income tax - if we raise it now and apply it to the calendar year 1940 incomes, it will be distributed over fiscal '41 and fiscal '42. In other words, it will be collected in calendar year '41, and the estate tax has an even greater lag, because it won't apply until the day the Act is passed and then the return is not filed - need not be filed until fifteen months after death, so that from that fifteen months or for the ensuing twelve months, or a period of twenty-seven months before you get your revenue - he ought to be made to realize that.

H.M.Jr: Well, I think he does. For once, the New York Times editorial and myself agree in what they said in their last sentence this morning, that the people wouldn't object so much to new taxes if they felt that the Government was really cutting down expenses, and I have asked Danny to kind of surreptitiously, or otherwise, get the figures for me on the budget, which he is going to do just as soon as this financing is through tomorrow. He is working at it now, see.

Hanes: Yes.

H.M.Jr: I am in the dark. I don't know where you are, but I don't know whether - I think somebody told the President incorrect information when he said he could have a two billion dollar deficit and - with the Army and everything else, why....

O'Donnell: Of course, I am very much concerned because he has been talking about expenditures of nine to

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nine and a half billion dollars and he has been talking about the two billion dollar deficit, thereby inferring what the revenues were going to be, and they are way in excess of anything that we envisage at this time.

H.M.Jr: Well, I don't want to do any guessing, but Danny thinks - I mean I don't want - I don't want to say - let's wait until tomorrow or next day because he is going to have some figures on his cuff for us, you see.

Hanes: What I would like to get you to tell us now is this, do you want us to work - how do you want us to work? Do you want us to work this thing out and complete it in four or five alternative complete programs for 500 million dollars? I mean, just to raise....

H.M.Jr: Do just what the President says, 500 million dollars, but I think we ought to - none of these mentioned excess profits, which is mentioned - I think we ought to do it ourselves and then we ought to analyze Randolph Paul's report as well, then tell him when he comes down here, plus these other gentlemen, "Now, this is what the Paul memorandum means," because Paul not only suggests new ones but he suggests changing certain ones. We lose so much, we gain so much. All right, now that is an analysis and I think we ought to send a formal answer back to the President. "If you carry out Mr. Paul's suggestion, you are going to lose so much revenue and gain so much, plus or minus." That is number one that I would like to get, you see, Johnny.

Hanes: Yes.

H.M.Jr: Then for you and me to be ready so that when the President sends for us, say, "Now, do you want to talk about the various ways? We are ready to give you a half dozen suggestions which we would like you to look at and tell us which would seem the most advisable.

Hanes: That answers my question exactly.

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H.M.Jr: There are two distinct things. One is to take the Paul memorandum and analyze it and give a formal answer to the President. We will do it just the way he did, one for the President and one for Mr. Paul which will clear through the White House. That is the way Mr. Paul did. Then we will say in a letter, "Now, Mr. President, here is this. Any time you are ready, Mr. Hanes and I are ready to come and give you a half dozen alternative suggestions if you care to look at them, as per your Warm Springs speech."

Hanes: And this we will confine merely to raising 500 million dollars revenue. Nothing else in the tax structure, just the 500 million dollars revenue.

H.M.Jr: I think that is right.

Hanes: All right. I understand that.

H.M.Jr: Is that all right?

Tarleau: It is interesting about Randolph Paul.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1939.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Debt Limit and the Provision of Resources Outside of It.

I. How Near Are We to the Debt Limit?

On November 20, 1939, the "total gross" direct public debt of the United States amounted to approximately \$41.3 billions. About \$600 millions of this was not issued under the terms of the Second Liberty Bond Act, and so is not subject to the \$45.0 billions limit on the total amount of debt issued under this Act which may be outstanding at any time. No new securities may be issued at the present time, however, except under the terms of the Second Liberty Bond Act. The total net amount which may be raised by the issuance of direct public debt obligations at the present time without an increase in the debt limit is, therefore, about \$4.3 billions.

The Working Balance on November 20 amounted to about \$1.5 billions. If we assume that a minimum Working Balance of about a billion dollars ought to be maintained over the next few years, then the "free" resources of the Treasury in the form of cash and the unused portion of the debt limit amount at the present time to about \$4.8 billions.

This amount is available to finance the deficit. It is important to note that the deficit to be financed in this sense is not the so-called "cash deficit" but the total "bookkeeping deficit". The excess of the bookkeeping deficit over the cash deficit consists principally of special securities issued to Government trust funds, particularly those set up under the Social Security Act. Such securities must be issued, however, under the terms of the Second Liberty Bond Act and, therefore, use up the total authorization under this Act just as much as though they were sold to the public.

1/ It should be noted in passing that sales of United States Savings Bonds, often also subtracted from the gross bookkeeping deficit in computing the amount necessary to be publicly financed, are not valid exclusions for purposes having to do with the debt limit, for Savings Bonds are issued under the terms of the Second Liberty Bond Act and use up the debt authorization under that Act the same as any other securities.

Secretary Morgenthau - 2

The free resources of the Treasury, in the form of unused debt authorization and cash in excess of the assumed minimum necessary amount were \$8.0 billions a year ago (November 20, 1938). Today, they amount on the same basis to \$4.8 billions, a decline of \$3.2 billions for the year.

During this period, however, about \$600 millions net was realized by the sale or redemption of guaranteed securities held by the Treasury at the beginning of the period. This source of funds has now been practically exhausted as the Treasury now holds no further important amount of guaranteed obligations.

Except for the sale or redemption of the \$600 millions of Treasury-held guaranteed obligations, the net decrease in the free resources of the Treasury during the past year would have been about \$3.8 billions, or an amount equal to about 80 percent of the remaining (\$4.8 billions) free resources available today.

Finally, it should be noted that expenditures financed by the sale of guaranteed obligations do not use up any of the \$45 billions authorization under the Second Liberty Bond Act. Such expenditures, therefore, contribute to the real deficit without pushing us against the statutory limit on the direct debt. All such expenditures are already excluded, however, from the bookkeeping deficit. The issuance of guaranteed obligations to pay them, therefore, does not help meet the bookkeeping deficit. This deficit must be financed entirely by the \$4.8 billions of free resources previously mentioned, unless the debt limit is increased or some of the devices discussed later in this memorandum are utilized.

II. Means of Providing Funds Outside of the Debt Limit

A. Other Than by the Use of Monetary Devices

There is very little that the Treasury can do to provide additional funds outside of the debt limit without legislation or without resort to monetary devices.

The most obvious expedient would be the sale of assets. It was in this way that about \$600 millions was raised during the past year by the sale of guaranteed obligations previously held by the Treasury. This class of asset has been about exhausted, however, and nothing is available to take its place.

Secretary Morgenthau - 3

The only readily marketable asset of any size directly held by the Treasury seems to consist of about \$50 millions of bonds of the TVA. There are also available about \$65 millions of obligations acquired by the PWA, which might be sold to and financed by the RFC, and about \$40 millions of shares of Federal savings and loan associations, which might be sold to and financed by the HOLC. The transfer of the latter, however, might require legislation. In any event the total amount which could be raised by the sale of assets directly held by the Treasury is very small -- not more than \$100 to \$200 millions at best -- and would not be of much help compared with the magnitude of the whole problem.

The sale of assets held by agencies which now have guaranteed debt outstanding would not in itself be helpful, as the funds so secured would ordinarily be applied to the reduction of the agency's own debt. In order to divert funds so received to the general purposes of the Treasury, it would probably be necessary to obtain legislation, reducing the capital stock of the agencies. Such legislation might be more difficult to secure than an increase in the debt limit itself. In any event the relief which might be so obtained would be small.

The agencies might make some contribution to the Treasury's problem if they would borrow well ahead of their needs and maintain a substantial cash balance in the Treasury, rather than expecting the Treasury to carry them in any emergency while they borrow from hand-to-mouth. Such a procedure, carried only to the point where the agencies dealt with the Treasury as they would with an independent bank, might in many cases be quite sound from a fiscal point of view. The net gains would be small, however -- not more than \$200 or \$300 millions at the most.

3. By the Use of Monetary Devices

A total of nearly \$11 billions could conceivably be added to the Working Balance of the Treasury without the issuance of any public debt securities under the Second Liberty Bond Act by the exercise of the monetary powers already possessed by the President and the Secretary of the Treasury. These powers and the amounts that might be realized by exercising them are as follows:

Secretary Morgenthau - 4

	(Billions)
1. Monetize the silver bullion now held at cost value in the General Fund. That is, revalue it at \$1.29 an ounce and issue silver coins or certificates therefor	\$ 1.5
2. Raise the monetary value of silver from \$1.29 an ounce to \$2.19 an ounce -- the same percentage increase as was made in the case of gold	2.3
3. Reduce the weight of the gold dollar to 50 percent of its pre-1934 weight -- that is, raise the price of gold from \$35 an ounce to \$41.34 an ounce	3.1
4. Increase the monetary value of silver to \$2.59 an ounce (to a ratio of 16 to 1 with the weight of the gold dollar, as reduced in 3)	1.0
Subtotal	\$ 7.9
5. Issue "Thomas currency"	<u>3.0</u>
Total	<u>\$10.9</u>

Of the foregoing powers, those permitting the revaluation of gold and silver expire on June 30, 1941, unless extended. The others are without definite time limit. Each is discussed in turn in the paragraphs that follow 1/:

(1) Monetize the silver bullion now held in the General Fund

In carrying out the mandate of Congress under the Silver Purchase Act of 1934, the Secretary has confined the amount of silver certificates issued to the minimum permitted by law; that

1/ It should be noted that the Stabilization Fund does not enter as a potential source for increasing the working balance or raising the effective borrowing limit because, although the Fund is empowered to purchase Government securities, no provision exists for the cancellation of such securities as part of the public debt.

Secretary Morgenthau - 5

is, he has issued silver certificates in an amount equal only to the cost of the silver purchased by him under that act, and has secured these certificates with only a portion of the silver so purchased. As a consequence of this policy, there has accumulated in the General Fund of the Treasury some 1,195 million ounces of silver bullion, with a cost value of \$609 millions, against which no silver certificates have been issued. At any time, however, the Secretary can, under that Act and without further legislation, issue silver certificates up to the full monetary value of this silver. This action would add approximately \$1.5 billions to the available assets of the General Fund without involving the issuance of public debt securities under the Second Liberty Bond Act.

(2) Raise the monetary value of silver to \$2.19 per ounce

Under existing statute ^{1/} the President could increase the monetary value of silver to the same extent that he has already increased the monetary value of gold; that is, by 69 percent. Such a step would raise the monetary value of silver from \$1.29 an ounce to \$2.19 an ounce. The monetary prices of silver are artificial prices, of course, and are far above the existing market level. The \$1.29 price has the justification at least of long tradition: The monetary value of silver has remained at \$1.29 an ounce since the original establishment of the monetary system of the United States by the act of April 2, 1792. Raising the monetary value of silver to \$2.19 an ounce would add \$2.3 billions to the General Fund of the Treasury.

(3) Change the gold content of the dollar (within statutory limits)

The President, under the authority of existing statute may fix the weight of the gold dollar at not less than 50 percent^{2/} nor more than 60 percent ^{1/} of its former weight. Under the proclamation of January 31, 1934, this weight has been fixed at 59.06 percent of its former amount. The present weight might, therefore, by proclamation and without change in existing law, be decreased by about 9 percent of the old weight. This step would be equivalent to raising the price from \$35 an ounce to \$41.34 an ounce. It would add \$3.1 billions to the Treasury's General Fund balance.

^{1/} Gold Reserve Act of 1934, section 12.

^{2/} Title III of the Act approved May 12, 1933, section 43(b)(2).

Secretary Morgenthau - 6

(4) Increase the monetary value of silver to \$2.59 an ounce

If the President, by proclamation, further revalues the price of gold, he might take similar action, under existing statute 1/, with respect to the price of silver. If the price of gold is raised from \$35 an ounce to \$41.34 an ounce, as noted in (3) above, the price of silver could, in order to maintain gold and silver prices at a ratio of 16 to 1, be raised from \$2.19 to \$2.59 an ounce. Such a step would add a further \$1.0 billion to the Treasury's General Fund balance.

(5) Issue "Thomas currency"

Under Title III, Section 43 of the act approved May 12, 1933 (the Agricultural Adjustment Act), the President is authorized to direct the Secretary of the Treasury to enter into agreements with the Federal Reserve Board whereby the Federal Reserve banks would conduct certain open-market operations, and as a result thereof would add \$3 billions of United States obligations to their Government security portfolio. If the Secretary is unable to secure the assent of the Federal Reserve banks and the Federal Reserve Board to such operations, or if the operations so undertaken prove to be inadequate, however, he is authorized to issue paper money and to use this money, commonly referred to as Thomas currency, "for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States." He may issue this money in such amounts as the President may approve, subject to the restriction that the aggregate amount of such currency outstanding shall not exceed \$3 billions. The issuance of such currency and its use for debt retirement would free that much of the debt authorization for use for other purposes.

The exercise of any of the foregoing powers would result in an approximately corresponding increase in member bank reserves. The funds spent by the Treasury would not, therefore, be limited in their expansive effect upon the monetary supply to their absolute amount, but would be capable of expanding that supply in the ratio of about seven to one. If all of the monetary means of raising funds listed in this memorandum were utilized, present

1/ Gold Reserve Act of 1934, section 12.

excess reserves (\$5 billions) would be increased to approximately \$16 billions, and, at a ratio of about seven to one, would be capable of supporting somewhat over \$100 billions of additional deposits -- an amount of deposits equivalent to about twice the present volume of deposits (exclusive of interbank deposits) held by all banks in the country.

The problem of excess reserves is already so serious, however, that it may require the application of new and fundamental measures, in any event. Such measures are outside the scope of this memorandum. If such measures are considered necessary and inevitable, it might easily be argued, however, that several billion dollars, added to excess reserves at the present time might have the positive advantage of bringing the problem to a head before it becomes more difficult of solution -- due perhaps to the emergence of a boom.

If an increase in excess reserves is to be avoided, it should be pointed out that the Board of Governors of the Federal Reserve System could, to a limited extent, offset the effect of Treasury monetary operations upon member bank reserves by undertaking certain compensating actions. These actions could take the form of an increase in member bank reserve requirements within the limits of the present statute, or the sale of a portion of the securities held in the open-market portfolio. The sale of \$1.5 billions from the Government security portfolio of the Reserve banks, for example, would be sufficient to offset the monetary effects of the monetization of silver bullion described in (1) above.

If this were done, the Treasury could secure \$1.5 billions of funds to meet its expenditures without increasing excess reserves and without the issuance of securities under the Second Liberty Bond Act. The Federal Reserve banks would, of course, be worse off fiscally by the loss of \$1.5 billions of earning assets; and, from a monetary viewpoint, would have lost \$1.5 billions of their "ammunition" for use in tightening money rates. The market might be somewhat unsettled by sale of the securities by Federal, but if it were properly handled, such sale ought to be little more disturbing than had it been made directly by the Treasury.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 27, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Information We Would Like to Have About Colombia

1. What kind of loan is Colombia seeking to obtain? (\$10.5 million is the figure we have.) Specifically what use does Colombia plan to make of the dollar proceeds as distinct from any local currency proceeds she expects to obtain from the sale of dollars placed at her disposal.
2. What has happened to Colombia's foreign trade since the war began? Has her trade with Germany either directly or indirectly ceased entirely? (It used to be about \$1 million a month, chiefly coffee.) What are their holdings of German marks?
3. How much gold and foreign exchange does Colombia now have? Our latest figures are \$24 million as of September 1.

If Colombia is seeking a short-term loan or a so-called exchange stabilization loan it is especially important for us to know what happened to her trade and foreign exchange since the war began.
4. Does Colombia contemplate placing any restrictions on any of her imports? If so, which imports? (Import licensing is in force.)
5. How much revenue and local currency and how much foreign exchange is Colombia going to obtain from the newly developed oil fields?
6. We are also waiting to learn what offer the Colombian Government is going to make with respect to (a) servicing the Federal debt, (b) servicing the local government obligations, and (c) servicing of the arrears of interest payments.
7. What is the exact amount of Federal and local bonds held outside of Colombia. How many of the bonds are held by the Treasury or Central Bank?

November 27, 1939

To: The Secretary

From: Mr. Hanes

In accordance with your instructions I had a long discussion with Mr. Trepnagen of the Foreign Bondholders Protective Council. I told Mr. Trepnagen that my purpose in asking for this conference was to see if there was any way that we could get the Council and the Government into a closer working arrangement, that there seemed to me to be a feeling on the part of some at least that the interest of the Government and the Council were antagonistic, whereas in my opinion it seemed so clear that we should have a closely coordinated group working consistently in the knowledge of what each side was trying to accomplish.

I told Mr. Trepnagen that we had before us now the discussion of a possible loan to Colombia, the amount of which I did not know, nor did I wish to discuss the details because these things remained to be worked out between our Government and the Government of Colombia, whose representative is now in Washington. At any rate, it seemed that the proper way to proceed on this particular loan was to be guided by certain principles which I would say ought to be along the line of the Colombian Government agreeing to issue new securities for defaulted interest, plus an agreement to begin servicing the old obligations immediately on some basis mutually satisfactory to the Bondholders, the Colombian Government, and our Government.

I told him further that I had gained the impression from various sources that there was a feeling of antagonism between the Government and the Council, that this might be caused by some personalities on both sides, that I thought this could be corrected and should be by a common sense approach to the problem, which is our mutual responsibility.

Mr. Trepnagen could not have been more cooperative or receptive to the suggestions. First, he stated that after the President seemed to criticize the Council in a Press conference a few weeks ago, that they had not to consider the idea of whether the Council should be disbanded; that after due consideration, they had decided that perhaps the President had not meant to be so critical as the Press conference sounded, and that nothing could be gained by withdrawing at this moment - hence, they had decided to continue. He said that, speaking for himself, it would be most agreeable to have the Treasury or some other agency of Government delegate a man to sit with them either formally or informally during the process of these or any other negotiations. He will suggest to the members of his Executive Committee that this Colombian situation be placed in the hands of a specific committee under the leadership of one of their members; he mentioned the name of Mr. Rogers, who would keep in close contact with the Government during the process of negotiation in

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the hope that a solution could be arrived at to which the Council could subscribe whole-heartedly and recommend acceptance by the Bondholders. He said that one of the things that has worried him continuously has been a feeling on his part that they were not working closely enough with the powers in Washington and that he, for one, would most heartily welcome any suggestion that we might make for bringing about a closer and more effective cooperation between the two.

I made an appointment for him to leave my office to go to see Dr. Herbert Feis. I told Mr. Traphagen that he was at liberty to discuss anything that I had said to him with Dr. Feis, leaving out possibly any reference to personalities involved, as I did not think anything could be accomplished by repeating names.

He left my office with the statement that he would be most happy to return at any time and to cooperate with us in any manner we might suggest.

Although I have never known Mr. Traphagen very well, I have known him for a long period of years and thoroughly believe in his sincerity and integrity. I believe that the proper way to work this thing out is through a very close working arrangement between the Government and the Council, and I believe further that this working arrangement can be accomplished if we are willing to sit down with them and lay our program before them frankly.

JWH

Conference at Secretary's Office, Monday, November 27, 1939, 3:30 P.M.

Present: Dr. Jaramillo of Colombia, Mr. Gaston and Mr. White

After an exchange of pleasantries the Secretary stated that he felt that the United States and their sister republics could do a great deal to help each other, particularly now that events abroad have made each of the countries more dependent on each other. Dr. Jaramillo agreed heartily.

The Secretary stated that the Treasury Department had been interested for several years in developing closer relations with our Latin American neighbors and that he was glad the time had now come when some action effecting closer cooperation might be possible. The Secretary stated that we were ready and waiting to go ahead in discussing the prospects of aid to Colombia and that it was his understanding that the next step was to come from the Colombian Government. The Secretary said that Mr. Welles had informed him that Dr. Jaramillo was awaiting instructions from the Colombian Government as to some definite proposal.

Dr. Jaramillo answered that was not his understanding, that rather he (Dr. Jaramillo) was given to understand by Mr. Jones and Mr. Welles that a memorandum would be prepared by Mr. Jones which would provide the basis for a message from Dr. Jaramillo to his government, indicating the attitude of the American Government in relation to the outstanding debt and to a prospective loan. The Secretary repeated that it was his understanding that we were waiting for Dr. Jaramillo to receive a message from his government before proceeding. Dr. Jaramillo reiterated that was not his understanding, that he was waiting to receive a memorandum from Mr. Jones.

The Secretary said that it was fortunate that Dr. Jaramillo had called because apparently there was a misunderstanding which was causing an unnecessary delay and that he would talk with Mr. Welles that afternoon and indicate that there was such a misunderstanding. Dr. Jaramillo said he was going to see Mr. Welles that afternoon about another matter and that he would also raise the point. The Secretary asked Dr. Jaramillo whether he minded if he (the Secretary) were to telephone Mr. Welles about the matter before Dr. Jaramillo saw Mr. Welles and Dr. Jaramillo said not at all, and added that he would be very glad to proceed with the discussions as soon as possible. The Secretary tried to get in touch with Mr. Welles immediately thereafter but Mr. Welles was out.

HDW



DEPARTMENT OF STATE
WASHINGTON

My dear Mr. Secretary:

In conformity with our understanding,
I take pleasure in sending you a copy of
the memorandum of conversation covering the
conference between yourself, the Under
Secretary, and myself, on November 28th.

Very truly yours,

A handwritten signature in cursive script, appearing to read "A. J. S. S.", written in dark ink.

Assistant Secretary

Enclosure:

Memorandum.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

DEPARTMENT OF STATE

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Memorandum of Conversation

DATE: November 28, 1939

SUBJECT: Policy with respect to the Inter-American Advisory Committee: Project for inter-American financial institution.

PARTICIPANTS: The Secretary of the Treasury, Mr. Morgenthau;
The Under Secretary of State, Mr. Welles;
Assistant Secretary of State, Mr. Berle.

COPIES TO: S, U
Copy to Secretary Morgenthau.

Mr. Welles and I called on Mr. Morgenthau at 3:30 today, at our request.

I stated that the work of the first sub-committee of the Inter-American Advisory Committee had reached a point at which further progress could not be made unless certain determinations of policy were taken and appropriate instructions were given. I pointed out that the Inter-American Advisory Committee had been constituted by resolution of the Conference at Panama; that that Conference had directed it to consider a large number of subjects, including, among other things, stabilization of inter-American currencies and monetary relations; and had likewise directed consideration of the possibility of establishing an inter-American financial

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financial institution. The Inter-American Advisory Committee had constituted three sub-committees, of which the first sub-committee was charged with financial matters, including these two points. Further, at the meeting of Treasury representatives at Guatemala the question of attempting the creation of an Inter-American financial institution had been raised, and that Conference had resolved to refer the question to the Inter-American Advisory Committee.

The first sub-committee, charged with these questions, had met; and after two days of desultory discussion had determined its agenda, and had determined to discuss the problem of an inter-American financial institution. A number of memoranda in general form had been submitted by various delegations. In order to lead the discussion in a concrete form, I had submitted to the Committee a list of questions, for the purpose of determining what, if any, of these questions the Committee desired to discuss. The Committee had now determined that it desired to discuss a number of the questions there raised, all looking toward the bases for the creation of an inter-American financial institution. I pointed out that any further discussion in committee would imply at least an acceptance of the general idea; and it would hardly be fair to the Committee to carry the discussion further unless the government had determined in principle that it thought the idea should be pursued.

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pursued, in the hope of getting some results.

Secretary Morgenthau inquired what assistance the Treasury could give.

I suggested that it might very well be that the Treasury would prefer to be directly represented on the sub-committee, now that this phase of the agenda had been, in substance, determined.

The Secretary indicated that in this matter the method of representation was of course the prerogative of the President; and that the Treasury would of course cooperate with any method of work on which the President had determined.

Mr. Welles observed that under the constitutive document of the Inter-American Committee each government was permitted one representative; that the President had appointed him as representative on a committee which was charged with considering all varieties of questions, from freight rates to determination of exchange; that it would seem that the appropriate method of handling matters would be to handle these questions in close relation with the agencies of the government having primary jurisdiction over the subject matter. In large measure the representation necessarily would have to interpret the views of the departments who were concerned with the problem, and in the case of the first sub-committee, this was the Treasury. I

suggested

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suggested that it might be desirable to draw in the Federal Reserve, in view of the range of the discussion.

The Secretary indicated that he preferred not to appoint a direct Treasury representative; but that he would be glad, instead of that, to offer full technical assistance through the Department experts. At Mr. Welles' suggestion, he likewise agreed that he would ask the Federal Reserve to cooperate in like manner.

I gave to the Secretary the list of questions which I had submitted; likewise the file of memoranda and observations which had been submitted by the various delegates on the sub-committee and a suggested resolution which indicated the way the committee's mind was running. I pointed out that at my suggestion the committee had adjourned, subject to call, until the question of policy could be discussed and at least a tentative indication of attitude could be formulated. When this was done it would then become possible to proceed with the work of the committee.

The Secretary asked how much time would be needed for a preliminary study, and it was agreed that a meeting of the Treasury experts and Federal Reserve might be held in my office on Friday, December 1, at 10:30. He added that he was very sure that there would be the fullest cooperation between the departments.

A. A. Berle, Jr.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, November 27, 1939.
11/27/39.

Press Service
No. 19-43

Secretary of the Treasury Morgenthau today offered for cash subscription, through the Federal Reserve banks, at par and accrued interest, an issue of 2 percent Treasury Bonds of 1948-50. The amount of the public offering is \$500,000,000, or thereabouts, and in addition \$50,000,000 of these bonds will be sold to Government investment accounts. For the benefit of small investors, preferential allotment will be given to subscriptions for \$5,000 and under where delivery in registered bonds 60 days after the issue date is specified. Subscribers for preferential allotment will be restricted to one subscription.

The bonds now offered will be dated December 8, 1939, and will bear interest from that date at the rate of 2 percent per annum, payable semi-annually on June 15 and December 15, with the first coupon covering a period slightly more than six months. The bonds will mature December 15, 1950, but may be redeemed at the option of the United States on and after December 15, 1948. They will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular issued today.

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

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. The basis of allotment will be publicly announced. Payment for any bonds allotted must be made or completed on or before December 8, 1939, or on later allotment.

The text of the official circular follows:

UNITED STATES OF AMERICA

195

2 PERCENT TREASURY BONDS OF 1948-50

Dated and bearing interest from December 8, 1939

Due December 15, 1950

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1948

Interest payable June 15 and December 15

1939

Department Circular No. 626

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, November 28, 1939.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1948-50. The amount of the public offering is \$500,000,000, or thereabouts. In addition to the amount offered for public subscription, \$50,000,000, or thereabouts, of these bonds will be allotted to Government investment accounts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 8, 1939, and will bear interest from that date at the rate of 2 percent per annum, payable on a semi-annual basis on June 15 and December 15 in each year until the principal amount becomes payable, the first coupon being dated June 15, 1940. They will mature December 15, 1950, but may be redeemed at the option of the United States on and after December 15, 1948, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called

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for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

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

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 60 days after the issue date will be given preferred allotment. In each such case payment must be made as provided in Section IV of this circular. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made or completed on or before December 8, 1939, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Treasury Department
Division of Monetary Research

Date November 28, 1939. 1938

To: Mrs. Klotz

Appended is a hurried outline of the possible merits of the Inter-American Bank plan that Mr. Welles and Mr. Berle may discuss with the Secretary this afternoon.

I think it may be worth while for the Secretary to glance at it so that he will be acquainted with some of the background in the event the matter should be raised.

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MR. WHITE
Branch 2058 - Room 208

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 28, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Proposed Inter-American Bank

A proposal to establish an Inter-American Bank was discussed at the Seventh and Eighth Pan-American Conferences and has been widely talked about for years.

Not knowing the specific features of the proposal now being discussed we cannot evaluate it but there is enough merit in the idea to warrant careful consideration before any comment as to its feasibility is ventured. Though it is very easy for these proposals to take on Utopian and unimpracticable character, it is possible that a plan could be developed which would have important advantages.

We presume the plan will have at least the following features:

1. The power to extend short-term credits to Latin American countries. The volume of credits which it might be able to extend is dependent upon the amount of capital contributed by the various countries. By being given power to accept deposits and issue some form of special notes the bank might be able to lend on short-term sums substantially in excess of its capital assets. The advantages of having such an institution perform the function of short-term credits rather than the United States Government are:

(a) Latin American countries may be able to borrow without waiting for difficult debt adjustments. This would be regarded as an advantage in the case of some countries but a disadvantage in the case of other countries.

(b) There would be less danger of defaulting on these obligations if the creditor were an Inter-American Bank than if it were a wealthy country.

(c) The charge of dollar diplomacy would be absent.

Division of Monetary
Research

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2. It might be able to guarantee private short-term credits extended to Latin American countries. At present American firms and private banks hesitate to accept short-term notes or financial paper of Latin American Governments at low rates of discount. The new bank could assume the risk bearing function on a substantial scale and thus facilitate inter-American trade.
3. It could serve as an international fiscal agent for Latin American countries. It could hold deposits on reserve, transfer payments on foreign debts and in general do things which private banks do at a profit for Latin American countries. A substantial portion of this business is doubtless now done by New York and London banks. Whether the new bank could do it more cheaply than these banks is open to doubt.
4. The bank could render technical assistance to Latin American countries. It is possible that the bank might build up a corps of experts who could perform a useful service in advising Latin American countries on their financial and economic problems.
5. Collection of information and compilation of statistics. It could publish a monthly bulletin which would be a primary source of financial economic data relating to Latin American countries. However, the duties of the Pan-American Union could readily be expanded to perform this function.
6. An Inter-American Bank may be able to develop procedures to facilitate the granting of long-term loans and the settlement of outstanding debts. The Bank may provide a vehicle for bringing private capital investments into Latin America. How far it is possible to go in this part is doubtful but a successful bank may be able to achieve some success in this line in time.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

WA 201

November 28, 1939.

The Honorable

The Secretary of the Treasury.

Subject: Conference of Secretaries of the
Treasury of the American Republics at
Guatemala City, Guatemala, November 14
to 21, inclusive.

Sir:

On your assignment to me, and delegation by the Secretary of State to act as the representative of the United States at the above conference, I departed from Washington by airplane at 9:15 p.m., Thursday, November 9 for Guatemala. I had previously been supplied with round trip transportation by air, a special passport and my credentials as delegate and a letter of instructions from the Secretary of State, copy of which is attached hereto. I was accompanied by Mr. Joseph P. Cotton, Jr., Assistant to the Secretary of the Treasury, whom you had designated to assist me. We arrived at Guatemala City at 5:50 p.m., Friday, November 10 and were met at the Guatemala City Airport by representatives of the President of Guatemala and by the American Minister, Mr. Fay Allen Des Portes, and members of the staff of the Legation, the Office of the Commercial Attache and the Consulate General. We were joined in Guatemala City Sunday evening by Messrs. Emilio Collado of the State Department, Simon Hanson, and Orvis Schmidt of the Division of Monetary Research of this Department, and Mrs. Charline Spurling, a secretary from the State Department. Mr. Laurence Duggan, Chief of the Division of the American Republics of the State Department, arrived in Guatemala City at 5:45 p.m., Monday, November 13. Messrs. Duggan, Cotton, Collado, Hanson and Schmidt bore credentials as advisers to the representative of the United States. Similar credentials were supplied to Mr. Howard Tewksbury, Commercial Attache of the Legation at Guatemala City.

Proceedings of the Conference -

Prior to the formal opening of the conference on Tuesday, November 14, preliminary sessions were held on Sunday, November 12 and Monday, November 13. These meetings were devoted to perfecting the

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organization of the conference, including the naming of five committees as follows: (1) Credentials; (2) Coordination; and the following three to deal with the subject matter of the Agenda, (3) Monetary; (4) Exchange; (5) Banking. The full membership of these Committees is set forth in the Bulletin of the Conference which will be attached hereto.

The United States representative was named as a member of the Committee on Exchange.

At the first preliminary session the temporary chairman, Mr. Jose Gonzales-Campo, Minister of Finance and Public Credit of Guatemala, named three representatives as members for each of the Agenda committees. Dissatisfaction with this arrangement having been expressed following the meeting by representatives of the countries which did not have membership on any committee, decision was reached at the second preliminary session on Monday, following the suggestion of the American delegation, that every country represented should have membership on at least one committee, and additional appointments to the committees were thereupon made by the temporary chairman. At the first preliminary session the representative of the United States rose to inquire whether it was in order to act at that time upon the nomination or election of a permanent chairman since if that were the case he had a nomination to offer. Discussion developed the consensus that the nomination and election of a permanent chairman should be left to the first formal session.

At the formal opening session on Tuesday, November 14, after the meeting had been called to order by Mr. Gonzales-Campo as temporary chairman, the United States representative moved that it should be recorded as the unanimous will of the representatives of the nineteen American Republics present that the Honorable, the Minister of Finance and Public Credit of Guatemala, the temporary chairman, be permanent President of the conference. This was approved by acclamation. Mr. Gonzales-Campo then delivered an inaugural address, a response to which was made by Mr. Arosemena, representative of the Minister of Finance of Panama. The opening meeting concluded with the playing of the National airs of all of the twenty-one American Republics. A full list of representatives at the conference and their advisers is appended. Paraguay was not represented. Uruguay was represented only in the two closing days of the conference by Mr. J. Richling, Minister to the United States. The following Republics were represented by their Ministers in Central America: Argentina, Brazil and Peru. Bolivia was represented by its Consul General in Guatemala, Mr. Enrique Töpke.

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A plenary session of the conference was held on Wednesday, November 15, at which there was discussion of the form which the actions of the conference would take. Upon the suggestion of the representative of the United States it was decided to defer action on this point until the nature of the decisions of the various committees could be reviewed. At this plenary session the representative of the United States delivered an address conveying the greetings to the conference of the President of the United States and the Secretary of the Treasury and stating the purposes of the conference as they were viewed by the American delegation.

Committee sessions were held during the remainder of the week and plenary sessions on Saturday, November 18 and Monday, November 20, at which resolutions presented by the various committees were adopted to form parts of the final Act of the conference.

Near the week end there was informal discussion among the representatives as to the seat of the next annual conference. After consultation with various representatives, including the representative of the United States, Mr. Gonzales-Campo suggested to the representative from Venezuela, Dr. Mendoza, that he consult his government on the possibility of holding the next conference at Caracas. Dr. Mendoza received an unfavorable reply and on Saturday Mr. Gonzales-Campo informed the United States representative that most of the delegates seemed to wish to hold the next conference in Washington. The United States representative agreed to consult his government and at the plenary session that day Mr. Gonzales-Campo announced that this was being done at his request. The United States representative therefore informed the delegates that the members of the United States delegation felt complimented at this suggestion and would of course be happy to meet their associates of the conference in Washington in 1940 if it could be arranged, but that it would be necessary to consult Washington on the matter.

A cable was sent to Washington and on Sunday a reply was received that both the Treasury Department and the State Department wished the conference to be held elsewhere than in Washington since to hold it in this city, in view of other conferences here, would be likely to create the impression that the United States was undertaking to dominate Pan-American conferences. The United States representative talked over the telephone on Monday morning to the Acting Secretary of the Treasury and later in the day received an additional cablegram reaffirming the above view. This having been reported to the Chairman of the conference, he consulted the representative from Ecuador, Dr. Cesar D. Andrade, who sent a cablegram to his government which resulted in an invitation from that government that the 1940 conference be held in Quito.

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At the concluding formal session of the conference at 6:00 p.m. on Tuesday, November 21, Quito was chosen as the seat of the 1940 conference; the Final Act of the conference was formally approved; the Chairman of the conference delivered an address summarizing the work of the conference; a resolution was adopted thanking the Chairman and the Government of Guatemala for their hospitality and for the smooth functioning of the conference; and the representative of the United States delivered the closing address, a copy of which is attached hereto.

Committee Sessions -

The representative of the United States attended all the sessions of the Exchange Committee, of which he was a member. He was assisted continuously by Mr. Tewksbury, the Commercial Attache, whose advice and understanding of Spanish were invaluable. He was joined at various times by other members of the United States delegation. The United States did not present any formal suggestions for action by the conference. Many informal suggestions were made in Committee, however, bearing on the written suggestions made by various other countries. Partly as the result of these suggestions, the Exchange Committee produced resolutions bearing on the following matters: (1) Coordination of Customs regulations and procedure through a committee of experts to be appointed by the Pan-American Union; (2) Preparation of standard forms for reporting fiscal and economic statistics; (3) Fuller exchange of printed documents and information directly between Treasuries.

There was discussion in this Committee, as well as in other committees, of the project suggested by various delegations to explore the possibilities of the formation of an inter-American Bank, which could supervise exchange and possibly engage in investment banking for the development of resources of the American Republics. The majority of the members of the Exchange Committee, notably the representatives from Venezuela, Guatemala and Panama, seemed skeptical of the feasibility of such an institution. The members of the American delegation took the position that without any commitment as to the feasibility of such an undertaking it would be worth while to have a competent inquiry made. Since resolutions on the subject were then being considered by both of the other Agenda Committees, the Exchange Committee decided to take no action. It had been decided at the plenary session that any representative to the conference could attend as an observer meetings of any of the committees. The representative of the United States, upon specific invitation, attended a session of the Monetary Committee and also a session of the Banking Committee. Other members of the delegation attended as observers all meetings of the Monetary and Banking Committees and participated, on request, in some of the discussions.

Accomplishments of the Conference -

The formal decisions of the conference are contained in the Final Act, which was issued in Spanish, Portuguese, French and English, translations having been made under the supervision of the Coordination Committee. Probably the most significant accomplishment of the conference, however, was in the free exchange of comment and opinion, the harmony of viewpoint expressed and the possibility for more concrete accomplishment in future meetings of Treasury representatives. The formal agenda of the conference quite closely paralleled subjects to be taken up at the meeting of economic representatives of the same states in Washington at the same time. For this reason and also because less weighty and more practical matters seemed to him the proper avenue of approach to fruitful working contacts between the Treasuries, the representative of the United States sought to direct attention to technical matters of Treasury operation, such as harmonization of procedure, exchange of information and service and the like. It was his belief that this Treasury conference should seek to break away from the pattern of the ordinary inter-American conferences and should concentrate more on exchange of views and information and upon synchronization of Treasury activities rather than upon the adoption of formal resolutions upon economic subjects. Notwithstanding the fact that the Final Act of the conference bears a striking similarity to the product of other inter-American conferences, some progress seems to have been made in this direction.

The meetings throughout were quite completely harmonious and the atmosphere as between delegates was highly cordial. Discussions were not acrimonious, but so far as there was difference of opinion it dealt in the main with non-essentials. The arrangements for the conference were complete and functioned smoothly. If there is opportunity for criticism it would be merely that the program and arrangements followed too closely the orthodox for such international conferences, which in the opinion of your representative conveys a little too much to sterility of practical result.

Entertainment -

The representatives and their advisers were entertained at an official reception in their honor by the President of Guatemala, General Don Jorge Ubico; at a reception by the American Minister; at a luncheon in Antigua, the ancient capital of Guatemala, by the Finance Minister, Mr. Gonzales-Carpo; at an official banquet and were made participants in a very considerable number of additional functions and entertainments, including those attending the opening of the National Fair of Guatemala on Sunday, November 19. In return, the American delegation entertained at a luncheon on November 21 all of the other representatives and advisers

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and certain officials of the Republic of Guatemala. Courtesy visits were exchanged with officers of state of Guatemala. No effort was spared by the Guatemalan government to make the stay of the representatives pleasant and the same may be said of the American Minister and the members of his staff.

Work of the Advisers -

Such worthwhile results as may have been achieved by the American delegation are due in great part to the work of the advisers, to all of whom I feel very grateful. Mr. Howard Tewksbury, the Commercial Attache of the Legation, gave his full time to the work of the conference throughout and sat with me in all committee sessions, acting both as translator and adviser and thus making it possible for me to participate in deliberations. Mr. Duggan of the State Department was constantly available and through his knowledge of Spanish assisted me in contacts with public officials and gave frequent helpful advice. Messrs. Cotton, of the Treasury Department, Collado of the State Department and Hanson and Schmidt of the Treasury Department, were similarly helpful. Mrs. Spurling of the State Department was an able and willing secretary to the delegation. One or more members of the United States delegation attended each session of each committee and frequent conferences were held, which enabled us to keep completely in touch with all the work of the conference. The members of the delegation worked as a unit in complete harmony throughout.

Sincerely yours,



Herbert E. Gaston
Assistant Secretary of the Treasury.

Attachments. (3)