

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, December 4, 1939.

Press Service
No. 19-52.

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2 percent Treasury Bonds of 1948-50.

Reports received from the Federal Reserve banks show that subscriptions aggregate \$6,263,000,000. Subscriptions in amounts up to and including \$5,000, totaling about \$21,000,000, where the subscribers specified that delivery be made in registered bonds 60 days after the issue date, were allotted in full. All other subscriptions were allotted 8 percent, on a straight percentage basis, with adjustments, where necessary, to the \$100 denomination.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

211

DATE December 4, 1939

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

Nov. 20: Export sales of Canadian wheat are estimated at about 500,000 bushels with 112,000 being worked to Scandinavia.

Nov. 21: The total Argentine crop has been estimated at 202,000,000 bushels which would compare with 336,000,000 bushels the past year and 185,000,000 bushels two years ago.

It was estimated that 350,000 to 400,000 bushels of Manitobas were sold, mainly to the Continent. Some purchases were made with the idea of moving the grain into an export position before the close of navigation.

Reports show that South Russia has shipped only about 1,000,000 bushels of wheat since August 1, while last year they had shipped 28,500,000 bushels.

Nov. 22: It is estimated that sales of Canadian wheat the past two days amount to about 500,000 bushels, and are understood to have been sold for January-February shipment from New York.

Nov. 24: Sales of Canadian wheat the past two days are estimated at about 1,500,000 bushels.

Owing to lack of shipping space to handle the new season's wheat the Australian government is confronted with a serious problem in the disposal of its exportable surplus.

Nov. 25: Sales of Canadian wheat today are estimated at about 250,000 bushels.

Secretary Morgenthau - 2

- Nov. 27: Today Europe was in the market for Canadian wheat and bought an estimated 1,500,000 bushels of wheat and flour.
- Nov. 28: Approximately 10,000,000 bushels of North American grains were taken yesterday by foreign buyers most of which was taken by the United Kingdom. Great Britain took about 8,000,000 bushels of Manitoba wheat and about 750,000 bushels of United States corn. The Continent bought 500,000 bushels of Manitoba wheat. This sudden re-entry of Europe into the North American grain markets is believed due in part to the desire of Great Britain to get as large supplies of grain as possible from nearby points in order to conserve shipping facilities.

The periodic waves of buying in domestic markets are associated with the functioning of the convoy system. Between two and three weeks ago Great Britain bought 5,000,000 bushels of Manitoba wheat. Since then until yesterday they have been inactive. The interval between buying movements suggests that foreign buyers are following the practice of getting supplies together at eastern seaboard points and after shipping arrangements have been completed and the convoy arranged, they are moving their supplies through the combat waters at one time.

- Nov. 29: Several cargoes of Canadian wheat have been worked, but actual figures are not obtainable.
- Nov. 30: Very little export business was done in wheat today but a report was out, though not definitely confirmed, that as much as 1,000,000 barrels of Canadian flour had been worked, supposedly to England. It was finally estimated that about 250,000 bushels of Canadian wheat had been sold to the United Kingdom today.

A British grain man has stated that reserves of grain are being accumulated for a long war and that new food credits are being arranged between England and twelve exporting countries.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

213

INTER OFFICE COMMUNICATION

DATE December 4, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

Some days ago, the Embassy in Paris informed us that France planned to ship gold to Canada by warship, in charge of a Bank of France official. Mr. Knoke told me this forenoon that the Deputy French Consul in New York yesterday telephoned a message to him from the French Minister in Ottawa, requesting that the Federal Reserve Bank receive 2,036 cases to be delivered to it today by Mr. Rousseau, the Bank of France official in charge thereof. The gold is this morning being taken into the Federal and will probably amount to between \$110,000,000 and \$140,000,000. The above mentioned French officials have asked that the gold be put under earmark, and this will be done. The Federal Reserve Bank had received no preliminary advice from France, obviously lest there might be some interception of the message. It will be interesting to learn whether the French trusted so large a shipment on one warship, or whether more than one vessel was utilized. It is the impression of the Federal Reserve Bank that the \$50,000,000 of gold which the British brought down from Canada and sold to the Federal Reserve Bank a few days ago had likewise arrived recently from the other side of the Atlantic by warship.

H. M. R.

STRICTLY CONFIDENTIAL 214

September 4, 1939.

Secretary Hargreaves

Mr. Cochran

Some days ago, the Embassy in Paris informed us that France planned to ship gold to Canada by warship, in charge of a Bank of France official. Mr. Knake told me this forenoon that the Deputy French Consul in New York yesterday telephoned a message to him from the French Minister in Ottawa, requesting that the Federal Reserve Bank receive 2,036 cases to be delivered to it today by Mr. Rousseau, the Bank of France official in charge thereof. The gold is this morning being taken into the Federal and will probably amount to between \$110,000,000 and \$140,000,000. The above mentioned French officials have asked that the gold be put under earmark, and this will be done. The Federal Reserve Bank had received no preliminary advice from France, obviously lest there might be some interception of the message. It will be interesting to learn whether the French trusted so large a shipment on one warship, or whether more than one vessel was utilized. It is the impression of the Federal Reserve Bank that the \$50,000,000 of gold which the British brought down from Canada and sold to the Federal Reserve Bank a few days ago had likewise arrived recently from the other side of the Atlantic by warship.

B. M. F.

EMC/rmm

The Swedish Minister presented to Secretary Morgenthau a message received today from the Swedish Foreign Office which reads in translation "Rooth for Merle Cochran, Treasury. Do you buy Swedish or Finnish gold with delivery Stockholm".

While the Treasury has not done this so far, Secretary Morgenthau proposes, subject to approval of the President, that the United States is ready to buy any amount of Finnish gold in Stockholm and to pay for it on delivery in Stockholm, provided that

- (a) Bank of Finland pays all expenses of transportation and insurance from Stockholm to New York, shipping the gold on first available steamer from Bergen.
- (b) Pending arrival of gold in New York, the Bank of Sweden segregate corresponding amount of Sweden's gold earmarked with the Federal Reserve Bank of New York in favor of the United States Treasury to constitute a guarantee for full delivery of the gold in the United States by Finland.
- (c) That preliminary safe conduct for the gold through Norway be obtained.

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The foregoing memorandum was dictated principally by Secretary Morgenthau in the presence of the Swedish Minister and Mr. Cochran, December 4, 3 p.m. It was shown to the President by the Secretary at 4:45 p.m. At 5:15 p.m. the Secretary telephoned the Swedish Minister that the President had approved the proposal.

At 4:30 p.m. the Swedish Minister had telephoned Mr. Cochran, while preparing the cablegram to his Government, and had been advised by Mr. Cochran to inform the Swedish Government in his cablegram that if this proposal was of interest, Governor Rooth of the Bank of Sweden should cable a formal request to the Federal Reserve Bank of New York, which bank would work out the technical details and contract, under instructions from the Treasury.


H. MERLE COCHRAN.

The Swedish Minister presented to Secretary Mergenthau a message received today from the Swedish Foreign Office which reads in translation "Roeth for Herle Cochrane, Treasury. Do you buy Swedish or Finnish gold with delivery Stockholm".

While the Treasury has not done this so far, Secretary Mergenthau proposes, subject to approval of the President, that the United States is ready to buy any amount of Finnish gold in Stockholm and to pay for it on delivery in Stockholm, provided that

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- (c) That preliminary safe conduct for the gold through Norway be obtained.

Handwritten initials

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 4, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

At 10:30 this morning, I telephoned Mr. Pinsent, Financial Counselor of the British Embassy. I thanked him for his letter of December 1, and let him know that the method suggested therein with respect to the Treasury receiving security sales figures from the British, and in not passing them on to the Securities and Exchange Commission unless Mr. Frank should request them, was satisfactory to the Secretary. Pinsent explained that Mr. Frank evidently desires to receive them only if the Treasury ties them up in such a way that they cannot be given any publicity by him.

In answer to my inquiry, Mr. Pinsent stated that he had no further word in regard to the arrangement for handling the securities. He plans to go to New York on Wednesday and will remain there the remainder of the week. I told him that Governor Harrison had decided to remain in New York this week and that we had asked him to give his personal attention to straightening out the details with the Bank of England so that the British account can be opened shortly. Pinsent promised to keep in touch with Governor Harrison and to do anything possible to expedite this matter.

Following the conversations which Mr. Stewart and I had with Governor Harrison last Friday and Saturday, in which we stressed the interest of the Secretary in seeing the bank account matter settled quickly, the Governor told me that he was calling off the hunting trip which he had planned for this week.



December 4, 1939.
10:47 a.m.

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H.M.Jr: Hello.

Mr.
Campbell: Hello. Hello, Mr. Secretary.

H.M.Jr: How are you?

C: Fine, thank you. How's yourself.

H.M.Jr: Oh, I'm - I'm very well.

C: I hear you couldn't place any bets in New Mexico or Arizona. I'm awfully sorry about that.

H.M.Jr: (laughs)

C: I'm taking them all myself here

H.M.Jr: I see. Get any good odds?

C: Oh yes, yes, I'll quote you higher odds than the former administration ever did.

H.M.Jr: I bet you.

C: But your chances aren't so good.

H.M.Jr: I see.

C: We may not run the race.

H.M.Jr: Well, what is the present status of the Annenberg case?

C: Well, I tell you, they've been making certain overtures toward a plea and as far as I'm concerned I am willing to make absolutely no deal at all for a plea and the Attorney General has backed me up on that so I don't think much will come of it.

H.M.Jr: Good.

C: But there seems to be an awful fear on the part of Mr. Annenberg that he's going to go to jail and I think his fear is very well founded and he's almost moving any possible pressure he can get to avoid that. Now he's been down offering, I talked to Ed Foley about it, offering settlements and can he get a plea and get off with a fine and all of that stuff, the answer to all of which has been definitely no.

H.M.Jr: Ed's here in the office with me now. He -

- Q: Oh good, well he's a fine fellow. He's been backing me up one hundred per cent all along the line.
- H.M.Jr: Well, he's not bad.
- Q: Well no, he's, you know considering where he came from.
- H.M.Jr: That's right.
- Q: So - but here's the - here's our situation on Annenberg and it's the only deal we offer and it's something he could do without a deal. If he wants to file a plain unvarnished plea of guilty -
- H.M.Jr: Yes.
- Q: With no recommendation whatsoever from the Government -
- H.M.Jr: Yes.
- Q: It would be perfectly all right with us if he makes proper arrangement to pay for his civil liability for his taxes those arrangements of course will be up to you people, I don't care what they are and - in return for that, if such a plea is filed we might consider letting out some of the lesser people involved in the thing principally the sons.
- H.M.Jr: I see.
- Q: Now that's the only proposition that we will consider but that's only on a plea without recommendation while he comes back that he wants to make sure that he isn't going to jail and he wants recommendation of leniency from the Government and all of this stuff which we have absolutely refused. Upon that refusal they have grown very cold toward the plea of guilty so I think the whole thing has blown over.
- H.M.Jr: Well, the way I feel is this. If there ever was a case that the Government should let the jury decide this is the one.
- Q: I quite agree with you.
- H.M.Jr: And if the - if we're going to keep the respect of the man on the street we can't make any deal with this fellow.
- Q: There can't be any deal. On top of that, although this

is a purely selfish reason nevertheless I'm entitled to it I think by reason of the hard work I have put into this case thus far.

H.M.Jr: Yes.

Q: If a deal is made I'm ruined, and I'm not going to have any deal I'll tell you that because -

H.M.Jr: Well, you won't be the only person that's ruined.

Q: I beg your pardon.

H.M.Jr: You'll have lots of company.

Q: Yes, indeed I will.

H.M.Jr: Yes.

Q: And I feel that in view of the summer I put in here, about twenty hours a day for four months straight, that I have a personal interest in this case and I'm entitled to be a little selfish when my own reputation is at stake.

H.M.Jr: I don't think it's selfish. Why the hell - just because a man's worth millions should we make a deal with him.

Q: Well I don't see any reason why we should, and on top of that he pulled this stuff down before the Attorney General and I gave the Attorney General a few facts to the contrary, I mean Kirkman comes in with this stuff, this poor old man who can't stand going to jail, I said, poor old man hell, I'll give you the name of three people that he has had killed in the City of Chicago in the last five years.

H.M.Jr: Yes.

Q: And I said, "He won't be able to successfully deny it either".

H.M.Jr: Yes.

Q: I said, "You're representing a murderer and a thief," and I said "Don't come down here telling me the poor old man."

H.M.Jr: Good for you.

- C: So the Attorney General said, "Well," he said, "Are these things so?". I said, "You're damned right they're so". I said, "I can give you a whole lot more too". So he said, "Oh well," he said, "Of course, Mr. Kirkman, you're not representing the kind of man you say he is". And Kirkman said, "Well I'll admit he's done some things he ought to be sorry for". I said, "Sorry hell, he ought to be hung". So -
- H.M.Jr: Well, there you are -
- C: So I think - I think this thing will blow over. I don't - I don't know - if he has to go to jail anyway, he's better off to take his chances with the jury.
- H.M.Jr: Yes. Well, I was sure everything was all right, but I just wanted to be reassured by you direct.
- C: Well, I'm awfully pleased that you called and as far as I'm concerned the only deal Moe Annenberg will get here is something that he can do himself without us anyway at any time. He can walk in and plead guilty any time he wants to.
- H.M.Jr: Right.
- C: But if he does he'll get no recommendation of leniency from me, and if I find anybody else trying to make one -
- H.M.Jr: Yes.
- C: Over my head, I'm going to come hollerin' to you for a little support in a hurry.
- H.M.Jr: Well you'll get a hundred and one per cent support from me.
- C: Well I know that and I tell you thus far, and I must say this truthfully, although I was a little bit worried for a while, I must say that the Department, the Department of Justice and the Attorney General personally have coincided with my views.
- H.M.Jr: I'm glad to hear that.
- C: I did have to do a little arguing down there once or twice and I had to get our mutual friend Tommy in the picture to do a little back of the scenes work.
- H.M.Jr: I see.

- C: But it worked out perfectly and I am receiving one hundred per cent cooperation from the Attorney General.
- H.M.Jr: Wonderful. Now, I'm glad. Now one other thing. When are you going to get started on Mr. Skidmore?
- C: Well here's the thing, I want to try Mr. Skidmore personally, and I can't take the two of them at once. Now as soon as I get this case in such shape, you see, we're still arguing pleas and abatements.
- H.M.Jr: Yes.
- C: And special dilatory pleas here, which I am arguing personally. Now as soon as I get this in shape why we're either waiting for a jury or where the thing is actually placed on trial calendar and we have a little time to spare, I'll go to work on Skidmore.
- H.M.Jr: Good.
- C: That's another case like the Annenberg one, that I don't want to entrust to anyone else, because there's too much danger in both of those of a fix.
- H.M.Jr: Now, how's my friend Sammy?
- C: Oh, say, he's marvellous. I've got him running after all the bookies in town.
- H.M.Jr: Good.
- C: He's doing a grand job and I really would be very short-handed without him. He's doing splendid work. I'm very pleased with him.
- H.M.Jr: Well now, we are going - we hope to start a case in New York, not - almost as important as this - not - we may want to borrow Sammy.
- C: Well that's fine, but you leave him with me for a little while longer, will you?
- H.M.Jr: Well, we won't need him this month anyway.
- C: Oh fine, well that's good, and you - by the time the first of the year rolls around why maybe I'll get on down there and I'd like to have a talk with you before you take Sammy away because I depend an awful lot on him.

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H.M.Jr: Well I won't do anything until I do see you.

C: Well that's awfully kind of you and I appreciate it, and once again I want to thank you for the wonderful help I've received from you personally and from everybody in your organization. It's been wonderful.

H.M.Jr: Well I've put my money on you and I'm not sorry.

C: Well thank you very much and I'll assure you this, I'll never let you down.

H.M.Jr: All right.

C: O.K. Mr. Secretary.

H.M.Jr: Goodbye.

C: Thanks for calling.

December 4, 1939.
12:14 p.m.

- H.M.Jr: The President of the United States asks me at one o'clock today, what the Treasury thinks that the revenue will be for the next fiscal year as compared to this fiscal year what should I tell him?
- George Haas: Well you'd have to tell him we're working on it.
- H.M.Jr: Oh, shush, George, you haven't worked for me that long.
- H: Well I'm afraid if I give you anything else I'll get you in a hole.
- H.M.Jr: No.
- H: But if you - if I must - have to make a horseback opinion on it.
- H.M.Jr: Yes.
- H: I would say that 1941 would probably be somewhat under six billion dollars.
- H.M.Jr: Under six billion.
- H: Yes. And the 1940, if you took a figure of five billion six, say - let him give the two figures.
- H.M.Jr: Well Danny's using a figure - the same as this year.
- H: Well, Mr. Secretary, it will be between this year and six billion, but not over six billion, I don't think.
- H.M.Jr: Well, he used the figure of five billion five twenty-five.
- H: Five twenty-five. We may raise that a little bit, I don't know -
- H.M.Jr: How much?
- H: Well that's why I gave this five - six hundred million instead of five hundred twenty-five.
- H.M.Jr: Well you're only seventy-five million apart.
- H: Well, Dan just used that figure, I'm not sure we'll raise this, maybe you'd better keep it five hundred twenty-five. Five million five hundred twenty-five.
- H.M.Jr: I see.

H: I'd leave it there. But now the other figure which, for 19⁴¹, I told Danny, would not be above six million dollars and probably less, it'd be somewhere between this five billion, five hundred twenty-five million and six billion dollars.

H.M.Jr: I see.

H: That's about the best I can do now.

H.M.Jr: All right George, thanks.

H: I'm sorry.

December 4, 1939.
12:51 p.m.

Capt.
Collins: Yes, Mr. Secretary.

H.M.Jr: you know on that matter I saw you about at ten o'clock.

C: Yes, sir.

H.M.Jr: How far have you gone in that?

C: Well I've just - I've just gotten the names of the interested companies that is - gave them a list of them.

H.M.Jr: Yes.

C: And I'm waiting now for the memorandum from Mr. White.

H.M.Jr: Well you don't know who was the President of the company.

C: No, sir.

H.M.Jr: Well when you find that all out come over and see me, I may want to do this myself. I don't want to put too much on you.

C: Aye aye, sir. Now Mr. Secretary, that is on the one company whose name appears through those papers.

H.M.Jr: Yes, Climax.

C: Not the big company.

H.M.Jr: This is the Climax.

C: Yes, that's the one I'm speaking of, yes, sir.

H.M.Jr: I don't - I think you'll find there's only one company in the world who makes that stuff.

C: Yes, sir.

H.M.Jr: I think it's a monopoly. I think -

C: There's two or three people I know that have been on it in the past and I'm getting - getting the dope out of the Navy, we have not bought any but they have.

H.M.Jr: When you've got it all come over and see me.

C: Aye aye, sir.

H.M.Jr: Righto.

December 4, 1939.
3:37 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones is in New York until tomorrow.

H.M.Jr: Oh Gee, I thought he was going to be here today.
Well leave word. See if they can get word. Tell him
I expect him at three tomorrow, see?

O: All right.

H.M.Jr: I'd like very much if he could drop in tomorrow for
fifteen minutes around ten-fifteen.

O: All right.

H.M.Jr: See?

O: Yes, sir.

H.M.Jr: Get that word to him.

O: Right.

December 4, 1939.
3:50 p.m.

H.M.Jr: Hello.

Operator: Mr. Hochschild
Harold
Hochschild: Hello Henry.

H.M.Jr: How are you?

H: Fine thanks, how are you?

H.M.Jr: Very well. Harold, are you the Mr. Harold Hochschild who was secretary to the Climax Molybdenum?

H: I am.

H.M.Jr: You are. All right.

H: I'm the same one.

H.M.Jr: When can you come down and see me?

H: Huh?

H.M.Jr: I want to see you.

H: You want me to come down and see you.

H.M.Jr: Yes.

H: All right.

H.M.Jr: Nothing to be frightened about, I want some cooperation on this

H: When Henry?

H.M.Jr: Well to give you time, could you come down Wednesday?

H: Wednesday; - what time morning or afternoon?

H.M.Jr: Well, which is more convenient to you?

H: What time would you -

H.M.Jr: Come down and have lunch with me Wednesday, one o'clock at the Treasury.

H: All right, Henry. If that's convenient to you. Otherwise

- 2 -

I can come down -

H.M.Jr: No. Come down and have lunch with me and I'll take a chance on the phone, see?

H: Yes.

H.M.Jr: But I don't want you to tell this to any of your associates, Harold, see?

H: I won't.

H.M.Jr: Nobody.

H: I won't.

H.M.Jr: It's in regard to the recent sales to Amtorg.

H: Oh, yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: But, so you might have that prices and the quantity and all the rest of that.

H: All right, Henry.

H.M.Jr: But don't, if you -

H: I won't say anything about why I'm asking for it until after I've seen you.

H.M.Jr: Right. And the other thing, I wasn't going to ask you this, but our mutual friend K. P. Chen.

H: Yes.

H.M.Jr: Can't get any zinc in this country and I don't know anything about the zinc situation but he can't get zinc.

H: Well he may have trouble in getting it from

H.M.Jr: Yes.

H: But he can buy zinc now if he's - if he wants to pay the market price for it.

H.M.Jr: Well, I think that -

H: We had some talk - somebody in our office had a talk with him about it not long ago and I'll check up on it.

H.M.Jr: Check up on that.

H: Yes I will.

H.M.Jr: And this other thing, if you'd have the facts but keep it very very secret.

H: O.K. Henry.

H.M.Jr: Be glad to see you Harold.

H: One o'clock at the Treasury.

H.M.Jr: That's right. Right in my office.

H: On Wednesday.

H.M.Jr: Right.

H: All right, Henry. Goodbye.

December 4, 1939.
4:37 p.m.

H.M.Jr: Hello.

Operator: Mr. Hochschild

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Harold

Hochschild: Hello.

H.M.Jr: Hello Harold.

H: I'm sorry to bother you again.

H.M.Jr: No bother.

H: It would make it somewhat easier for me to be sure that I have all the information, if I can tell one person in strict confidence and I can rely on that person.

H.M.Jr: That's all right.

H: O.K. Henry.

H.M.Jr: That's all right.

H: O.K. See you Wednesday.

H.M.Jr: Thank you.

H: Goodbye.

December 4, 1939.

H.M.Jr: Hello.

Operator: The Swedish Minister.

H.M.Jr: Hello.

W.
Bostrom: Hello.

H.M.Jr: Is this the Minister?

B: Oh yes, Mr. Secretary.

H.M.Jr: I just saw the President.

B: Yes.

H.M.Jr: And he O.K'd that.

B: Thank you so much.

H.M.Jr: So you -

B: Then I can add that in the same telegram.

H.M.Jr: Yes, you can make that as a firm offer.

B: As a firm offer, yes. And I spoke to Mr. Cochran.

H.M.Jr: Yes.

B: He suggested that I should, in case it was O.K'd by the President, that I should suggest to the Bank of Sweden to make a formal request to New York.

H.M.Jr: That's right.

B: And then they refer it to you.

H.M.Jr: That's right.

B: Thank you very much, Mr. Secretary, I'm very much obliged.

H.M.Jr: Well, that's pretty good service.

B: Yes, it's very good. I think we all ought to help them as much as we can.

H.M.Jr: Yes, we must.

B: Thank you very much, Mr. Secretary. Goodbye.

THE AMERICAN METAL COMPANY, LIMITED
51 BROADWAY
NEW YORK

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HKH:AA

December 4, 1939.

TELEPHONE BOWLING GREEN 8-1800
CABLE ADDRESS: EFFLUX, NEW YORK

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

Dear Henry:

Sometime ago I requested our Sales Department to cooperate with our friend, K. P. Chen. Lately I have been so busy with other matters that I had not made any inquiries as to recent developments. After you telephoned today I found that Universal Trading Company wants high grade spelter, which is produced only by the New Jersey Zinc, Anaconda and Bunker Hill Companies and of which there is now a shortage.

We have interceded with the New Jersey Zinc in behalf of Universal Trading Company and are negotiating an exchange whereby we give the New Jersey Zinc Company ordinary zinc and they give the Universal Trading Company the high grade which the Chinese desire. It so happens that at the very time I was talking with you one of our men was up at the Universal Trading Company's office in connection with this matter.

Looking forward to seeing you Wednesday at 1 P.M.,

Sincerely,

Harold

December 4, 1939

Dear Mr. Phillips:

I just finished reading your column on the Budget conference and hasten to let you know that it will be impossible for me to get along with one less stenographer.

Your column furnished me with a much needed laugh.

Sincerely yours,

Mr. M. I. Phillips,
Care, The New York Sun,
200 Broadway,
New York, N. Y.

The Once Over

By H. I. Phillips

Budget Conference

("Harold D. Smith, director of the budget, flew to Warm Springs at Presidential summons and discussed with the President the cutting of the budget."—News item.)

Franklin.—Good morning, Harold. I sent for you to discuss cutting the budget.

Harold.—Well, we've got a lovely day for it.

Franklin.—I like 'a clear day like this for going over figures. You can see the decimal points for miles. Are we all set?

Harold.—I think so.

Franklin.—Have you got plenty of erasers?

Harold.—Yep! Blue pencils and everything, too. But let's decide how we work.

Franklin.—What do you mean "we work"?

Harold.—Which of us wipes out figures and which of us puts 'em in?

Franklin.—Let's not pin each other down. You erase something or add something as you think best and I'll do the same.

Harold.—But won't this mean confusion?

Franklin.—Don't talk like a Republican!

Harold (holding the budget).—It's quite a nice budget, eh?

Franklin (admiringly).—Must be a fifteen pounder. A little fat for this time of year.

Harold.—Nonsense. Our budgets are fat in all times of the year.

Franklin.—Now, let's get down to carving. Have you brought the necessary surgical instruments?

Harold.—I got an axe, four hatchets and . . .

Franklin.—So you're a Republican at heart, eh!

Franklin (after a few moments).—I thought you'd do some cutting on the way down in the airplane.

Harold.—I tried to but it was up so high.

Franklin.—The plane?

Harold.—No, the budget.

Franklin.—Let's get down to business. Where can we start to cut?

Harold.—We can cut expendi-Indians should be willing to economize; they're used to it. And we can cut some of the Treasury Department estimates. Morgenthau could get along with one less stenographer.

Harold.—We could set an example by doing our part.

Franklin.—That's a good idea. I'll cut out a couple of radio hookups and use a smaller cruiser for fishing. What can you economize on, Harold?

Harold (thinking hard).—I can save a little gas.

Franklin.—How?

Harold.—By not flying around in airplanes to talk about cutting the budget.

Franklin.—Good! I don't know why I didn't think of that first.

The following is a copy of the original news despatch from Chungking, China, dated November 30th, following the interview between Mr. Maurice E. Sheahan and the Press representatives.

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

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

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

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

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

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

"The officials and people of Kwangsi Province with the past few weeks allowed the highway to be flooded and the roadbed has reverted to its original state--paddyfields--that preceded its construction, thus rendering it useless for Japanese operations.

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

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

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

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

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

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

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

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



TREASURY DEPARTMENT
WASHINGTON

December 4, 1939.

MEMORANDUM FOR THE SECRETARY:

Re: Overtime Work--Procurement Division.

A total of 54 employees, exclusive of executives, out of a force of 283 in the Administrative Section, were involved in overtime work, on Friday, Saturday, and Sunday, as follows:

- 5 employees worked $8\frac{1}{2}$ hours overtime Friday night (from 4:30 p.m. Friday to 12:45 a.m. Saturday).
- 18 employees worked 9 hours overtime Saturday and Sunday (from 1:00 p.m. to 4:00 p.m. Saturday, and from 9:00 a.m. to 3:00 p.m. Sunday).
- 4 employees worked 6 hours overtime on Sunday (from 9:00 to 3:00 p.m.).
- 19 employees worked 12 hours overtime Saturday night (from 8:00 p.m. Saturday to 8:00 a.m. Sunday).
- 7 employees worked 10 hours overtime Saturday night (from 9:30 p.m. Saturday to 7:30 a.m. Sunday).
- 1 employee worked 22 hours overtime Saturday and Sunday (from 1:00 p.m. Saturday to 11:00 a.m. Sunday).

All the above employees volunteered for the overtime work. No employee was required to work overtime. The rule was to use the employees in shifts so as not to cause any undue strain. Time was taken out at will for rest and refreshment. Some employees were able to sleep during intervals of inactivity.

There was no case of collapse, as reported in the newspaper. Care was taken that no one should over exert. All female employees were taken to their homes upon completion of night duty.

All employees who contributed overtime work are being given time off correspondingly.

GRAVES.

December 4, 1939.

MEMORANDUM FOR THE SECRETARY:

Re: Overtime Work--Procurement Division.

A total of 54 employees, exclusive of executives, out of a force of 285 in the Administrative Section, were involved in overtime work, on Friday, Saturday, and Sunday, as follows:

5 employees worked 8½ hours overtime Friday night (from 4:50 p.m. Friday to 12:45 a.m. Saturday).

18 employees worked 9 hours overtime Saturday and Sunday (from 1:00 p.m. to 4:00 p.m. Saturday, and from 9:00 a.m. to 3:00 p.m. Sunday).

4 employees worked 8 hours overtime on Sunday (from 9:00 to 3:00 p.m.).

19 employees worked 12 hours overtime Saturday night (from 8:00 p.m. Saturday to 8:00 a.m. Sunday).

7 employees worked 10 hours overtime Saturday night (from 9:50 p.m. Saturday to 7:50 a.m. Sunday).

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BIG/mfr

GRAVES.



Employee Collapses Because
men's Administrative Section put
in 79 hours last week, men and
women alike. Saturday's hours
were 8:30 a.m. to 12:30 p.m.; back
at 8 p.m., off Sunday 8 a.m. This
for several weeks. A woman col-
lapsed under the grind.
* * *

last 79 Employees
taking unusual hours,
two hours, worked.

December 4

11:30 am

Miss Tully phoned that sometime ago the President asked Secretary Morgenthau to let him know the value of the Post Office in Poughkeepsie. HM, Jr may have reported, but the President does not remember it and asks that HM, Jr send the President a memorandum on it.

nmc

1. Appraised by Procurement Division assumed May 15, 1939 at \$83,000.
2. Letter for President's signature to Atty. Gen. on May 15, 1939 requesting letter to advise whether old bldg. is desired for Branch Court. No information as to whether President signed letter.
3. Kennedy is sending complete report to President not later than tomorrow
4. Grace Tully advised of above

SWB
12/4/39

December 4, 1939.

Dear Mr. Keeshin:

On behalf of the Secretary, I am acknowledging your letter of December 2nd, which encloses copies of original reports from Messrs. M. E. Sheahan and C. W. VanPatter, from China, dated November 14, 16 and 21st, respectively, and also a copy of a report from Mr. Earl H. Leaf, New York City, dated December 1, 1939.

These documents will be studied with much interest.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. L. Keeshin, President,
Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

OKF:luf

December 4, 1939.

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GKF:lmf

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Mr. J. L. Keeshin, President,
Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GRF:laf

KEESHIN FREIGHT LINES, INC.

245

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

December 2, 1939

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

My dear Mr. Secretary:

I am enclosing herewith copies of original reports which I received from Messrs. M. E. Sheahan and C. W. VanPatter, from China, dated November 14, 16, and 21st, respectively, also a copy of a report which I received from Mr. Earl H. Leaf, New York City, dated December 1, 1939. This is being forwarded to you for your information.

Very truly yours,


J. L. Keeshin

JLK:LR

Enc. (4)

RECEIVED
NOV 21 1939
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

COPY

c/o Ministry of Communications
Chungking, China
November 14, 1939

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

246

Dear Mr. Chen:

I have read your telegram of November 10th which was delivered to Dr. H. H. Kung, Minister Chang Kia-NGau and Mr. P. W. Tsou, which telegram was received in Chungking November 13th, and with particular reference to that portion thereof referring to the necessity of my return to the United States. I should like to make it clear that the suggestion that I return to the United States was not entirely my own. It was felt that the trip would be beneficial to China:

1. In compliance with your desires as expressed in your several cables of October 8th and 10th, and your letter of October 23rd wherein you infer that we jointly present the merger proposition to the Treasury Department;
2. To more thoroughly discuss with your engineers and others, essential changes in truck specifications and assist in coordinating the functions of U.T.C. with the needs of the National Government in so far as they concern transportation;
3. Assist through visiting the various truck manufacturers in progressing the plan recommended to the Minister of Communications of utilizing Foo Shing through U.T.C. as the purchasing agent for all governmental transporting agencies including the military through a Central Material and Supply Store and specifically to secure if possible from the manufacturers their agreeableness to the plan of forwarding essential parts and supplies on consignment, the payment for which could be made as the supplies are consumed;

- 2 -

4. To inform you and your staff as well as our Treasury Department of the current status of the transportation facilities of China.

This program I realize would involve perhaps 30,000 miles of almost continuous travel within a period of approximately 45 days with very little time to inform Mr. Keeshin of the various plans we have under consideration to the end that we can secure his advice and counsel as contemplated in our Agreement. I also had in mind to visit several aircraft manufacturers particularly Mr. Howard's plant in Chicago as I understand he has commenced construction of an aeroplane exclusively for the handling of freight in competition with surface transportation. From what I have been able to learn regarding cost of operation and doubling Mr. Howard's estimates, freight could be hauled more economically by aeroplanes than by truck and granting the loss of a single plane through the actions of the enemy, the economical loss over all would be ^{no} more than the present losses to equipment and cargo that are apparent on every highway over which I have travelled.

I hope with the foregoing at hand you will perceive a desire on the part of those of us in China to cooperate fully with you in economizing time and expense. With kindest personal regards to yourself and staff, I remain

Sincerely

(signed) M. E. Sheahan

cc. H. E. Dr. H. H. Kung
H. E. Minister Chang Kia-NGau
Mr. J. L. Keeshin

COPYChungking, China
November 18, 1939

Dear Mr. Keeshin:

I returned from Kweiyang to Chungking on November third, and since that date have been working on plans for the organization of maintenance, shops, locations, equipment, parts and shop capacities that will be necessary to maintain approximately five thousand trucks and buses that will be consolidated from six to eight government owned transportation companies into one corporation which will operate under the Ministry of Communications. This plan will eliminate much bidding for mechanics and drivers and will also eliminate duplication of shops, garages and equipment in the same location. It will also be much easier to control under this system of organization rather than to have competitive government organizations operating the same kind of trucks and buses and also running over the same highways, duplicating all operating necessities. Mr. Sheahan and Mr. Bassi have been working very diligently to bring about this new form of organizing. I, of course, mean new to the Chinese. They are very peculiar and erratic in many ways and it has been most difficult to bring about the proper coordination. It is my opinion that at last this part of the job is under control and I also believe we have accomplished as much as any one could in this length of time.

It has been decided that major shops shall be located in Kunming, Kweiyang, Chungking, Hwanghsien and Lanchow. Shops of a major nature will be located in Luhsien, Poocheng and Lashio or the termini of the Hunnan-Burma route. It will also be necessary to establish twenty-five to thirty minor repair sectional garages in order to eliminate delays to equipment operating between principal terminals. If arrangements can be made with the French Government, a major shop will be erected at Phulongchong, Indo-China. In view of the Japanese invasion at Bakhoi it would be folly to establish a shop of any consequence on the Chinese side of the border until it is determined how they will come out with their battle for this territory. I am thinking of the road between Kweiyang through Hochih to Nanchan

north of Haiphong, Indo-China. The bombing at present in this area is very consistent making day travel on the highway impossible, and the condition of the road makes night traveling very slow. In the daytime the Japanese planes will fly very low and straf with machine guns anything they can see on this highway. A new cutoff is being built from Nacham to Hochih which will be much better unless the Japs push too far inland from Pakhoi. The Chinese government officials are very optimistic and believe that they will soon be able to drive out the invaders of this section. The highway causes this to be a very important battle but we are all optimistic about the outcome.

It is planned that I will leave Chungking the first part of next week to be in the territory for quite some time. The fourteen shops that were purchased by UTC have arrived in Haiphong but will be immediately shipped to Kweiyang and from this city distributed to the shops in other localities as the buildings are completed. It will be necessary for me to follow through with each one as they are being set up. I will also have to make a survey of the shop buildings and repair sheds that have been erected by the different government transportation administrations to determine how they can be used to the best advantage and still exercise as much economy as possible. Many shop sites have been purchased and quite a few repair sheds built before we arrived in China. The consolidation of these Ministry organizations will effect great savings in this alone. Most of the repair shops are built without walls, making it possible to move them without great expense. The moderate winter weather permits the use of a building so designed. From Chungking, south, the temperature is known to stay about forty degrees except the mountain tops - they will have slight freezes from time to time through the winter months. The northwest highway is routed through a colder climate, also heavy snows in the winter months. The buildings in this territory are better constructed. The machine shop buildings in southern China are enclosed to prevent stealing. I might mention that all of the motor equipment on the northwest highway is of Russian manufacture.

The two hundred D50 Internationals have arrived in Haiphong and it is

expected that they will be assembled within the next two months. The trailmobile trailers have also arrived. They will be completed before the tractors are ready. The plan to operate this equipment from DongDang to the mountains on the north is given up for the present in view of the Japs attempted invasion to cut off this road. Three hundred kilometers north from Kunning will permit tractor-trailer operation but they would have to be turned back from south of Annam due to the treacherous mountain roads. A limited section of two highways in the Chungking area will also permit the use of this equipment.

I would like to again assure you that I am doing my best to accomplish the big undertaking that is ahead of me and I feel very confident that if you were here you would be well pleased with the results to date.

Wishing you and yours the finest kind of a Thanksgiving day, I am

Sincerely yours,

(signed)

C. W. VanPatter

December 4, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

MS

HA

The present status of the matter of the trawlers and other vessels transferred to the French flag under approval of the Maritime Commission is as follows:

(1) All Collectors of Customs and all Coast Guard Commanders have been instructed not to permit any vessel which has been transferred from American flag and registry to a foreign flag to clear or depart from an American port or territorial waters without specific instructions from the Treasury Department so to do.

(2) Specific instructions have been sent with respect to the trawlers LOON and PENGUIN and the tugs KENNEBEC, DEBARDELEHEN and BARRENSFORK that they are not to be permitted to depart without authorization from the Treasury.

(3) We are awaiting further advices from the Department of Justice as to:

(1) What agency of the Government shall conduct a detailed investigation to learn whether the transfer of these vessels was legal;

(2) What further steps should be taken by the Treasury in the matter.

A copy of the attached memorandum is being sent to Judge Townsend in Justice, who will then immediately take up with the Attorney General the question of further procedure. Judge Townsend and Kemp, Special Assistant to the Attorney General, are both inclined to the view that further investigation should be by the Bureau of Investigation of the Department of Justice.



TREASURY DEPARTMENT

-52

WASHINGTON

MEMORANDUM OF FACTS ON SALE TO FRENCH INTERESTS OF TRAWLERS

On December 1, there was received at the Treasury Department from the Coast Guard at Boston a message to the effect that three mine sweepers, sold to the French Government by the Portland Trawling Company, had passed Cahoon's Hollow going south. Upon receipt of that information, steps were taken to ascertain the nature of the transaction and whether other vessels were involved. As a result of those investigations, the following facts were developed.

The three vessels sighted off Cahoon's Hollow were the trawlers Hrant, Coot, and Plover, which had cleared for Havre, France, from Boston on November 29. The sale of those three trawlers had been approved by the United States Maritime Commission on November 14. In the application for approval of sale, it was stated that the vessels were being sold to the Compagnie Generale Transatlantique to be placed at the disposal of the French Government for use in French territorial waters and vicinity. The Coast Guard station reporting the passage of the three vessels was asked why the vessels had been referred to as mine sweepers. The station reported that the transaction had been mentioned in newspaper accounts in New England and that those newspaper accounts had referred to the vessels as mine sweepers. The nationality of the crews of the three trawlers is French. Members of the crew were apparently secured from French lines at New York.

Further investigation showed that five other vessels had been sold to French interests to be placed at the disposal of the French Government in French territorial waters and vicinity. They are the Loon, a trawler, the Penguin, a trawler, the Kennebec, a tug, the Debardeleben, a tug, and the Barrenfork, a tug. The Kennebec, while she is described as a tug, is said to be, for all practical purposes, a trawler. The Loon and Penguin are, at the present time, at the Alameda Works, East Boston, Massachusetts. The Kennebec is at a drydock in East Boston. The Debardeleben is in New Orleans, reportedly in the Mississippi River under trial by French agents. The Debardeleben has not yet been transferred to French registry, but the bill of sale has been filed in the Custom House at New Orleans. The Barrenfork is in Charleston, South Carolina. The Loon and the Penguin have been transferred to French registry and flag. This transfer was approved by the United States Maritime Commission on November 14, 1939.

From information secured from the Coast Guard, it appears that the only reasonable use to which the trawlers and tugs could be put by the French Government in French territorial waters and vicinity is use

as mine sweepers or patrol boats. According to Jane's Fighting Ships, the French mine sweepers are armed with a 65 millimeter gun. The Coast Guard advises that such mine sweepers would probably also carry a machine gun for anti-aircraft purposes (unless the 65 millimeter gun were a dual purpose gun) and a Y-gun for the discharge of depth bombs.

The Brant, Coot, Plover, and Loon were built by the Foundation Company in Savannah, Georgia. The Penguin was built in Cleveland. The Brant, Coot, Plover, and Loon were four of thirty-eight vessels contracted for during the World War. Ten were never finished. Most of the twenty-eight that were finished were sold to various trawling and fishing companies. It appears that those vessels were designed for the French Government as mine sweepers. Their dimensions are 139 feet long with a 25-foot beam.

The Loon, Kennebec, Penguin, Debardeleben, and Barrenfork are being held in port pending further instructions. Instructions have been issued to the Coast Guard to detain the Brant, Coot, and Plover if they are found within the 12-mile limit. No effort is being made to locate the position of the three latter vessels beyond the 12-mile limit.

The Department of Justice and the State Department were informed of the developments immediately. Acting Attorney General Kemp approved the detention of the five vessels still in port pending further investigation. There appears to have been a possible violation of section 11 of the Criminal Code (U.S.C. title 18, sec. 23), which makes it a crime knowingly to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of any foreign state to cruise or commit hostilities against the subjects, citizens, or property of another foreign state. Paragraph 8 of the President's general proclamation of neutrality of September 5, 1939, provides that it is forbidden knowingly to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of a belligerent to cruise or commit hostilities against the subjects, citizens or property of an opposing belligerent.

The Department of Justice has under consideration the question as to which agency of the Government should conduct the investigation of the matter.

HC
7/15

Oil cable 12-2
400 - 12/3/39
from Amer
Capt
Helsinki:

Miss Chauncy
To file
M.S.

The Swedish Minister presented to Secretary Morgenthau a message received today from the Swedish Foreign Office which reads in translation "Rooth for Merle Cochran, Treasury. Do you buy Swedish or Finnish gold with delivery Stockholm".

While the Treasury has not done this so far, Secretary Morgenthau proposes, subject to approval of the President, that the United States is ready to buy any amount of Finnish gold in Stockholm and to pay for it on delivery in Stockholm, provided that

- (a) Bank of Finland pays all expenses of transportation and insurance from Stockholm to New York, shipping the gold on first available steamer from Bergen
- (b) Pending arrival of gold in New York, the Bank of Sweden segregate corresponding amount of Sweden's gold earmarked with the Federal Reserve Bank of New York in favor of the United States Treasury to constitute a guarantee for full delivery of the gold in the United States by Finland.
- (c) That preliminary safe conduct for the gold through Norway be obtained.

J. M. Morgenthau
Dec 4th 1939

December 4, 1939.

255

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

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The Brant, Coot, Flover, and Loon were built by the Foundation Company in Savannah, Georgia. The Penguin was built in Cleveland. The Brant, Coot, Flover, and Loon were four of thirty-eight vessels contracted for during the World War. Ten were never finished. Most of the twenty-eight that were finished were sold to various trading and fishing companies. It appears that those vessels were designed for the French Government as mine sweepers. Their dimensions are 139 feet long with a 25-foot beam.

The Loon, Kennebec, Penguin, Debardeleben, and Barranfork are being held in port pending further instructions. Instructions have been issued to the Coast Guard to detain the Brant, Coot, and Flover if they are found within the 12-mile limit. No effort is being made to locate the position of the three letter vessels beyond the 12-mile limit.

The Department of Justice and the State Department were informed of the developments immediately. Acting Attorney General Kemp approved the detention of the five vessels still in port pending further investigation. There appears to have been a possible violation of section 11 of the Criminal Code (U.S.C. title 18, sec. 23), which makes it a crime knowingly to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of any foreign state to cruise or commit hostilities against the subjects, citizens, or property of another foreign state. Paragraph 8 of the President's general proclamation of neutrality of September 5, 1939, provides that it is forbidden knowingly to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of a belligerent to cruise or commit hostilities against the subjects, citizens or property of an opposing belligerent.

The Department of Justice has under consideration the question as to which agency of the Government should conduct the investigation of the matter.

RE/ME/ep 12/1/39

December 4, 1939

My dear Mr. Secretary:

I am enclosing herewith a copy of the memorandum which I submitted to the President at Cabinet on December 1, 1939.

In view of the position that the Treasury has taken, as outlined in this memorandum, is there anything further that we can do to be of assistance to the Navy Department at this time? If there is, please let me hear from you.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Charles Edison,
Acting Secretary of the Navy,
Navy Department,
Washington, D. C.

By hand

December 4, 1939

My dear Mr. Secretary:

I am enclosing herewith a copy of the memorandum which I submitted to the President at Cabinet on December 1, 1939.

In view of the position that the Treasury has taken, as outlined in this memorandum, is there anything further that we can do to be of assistance to the War Department at this time? If there is, please let me hear from you.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harry H. Woodring,
Secretary of War,
War Department,
Washington, D. C.

(In Woodring
cabinet receipt
12-9-39)

Enclosure.

By hand

GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

200



December 4, 1939

MEMORANDUM FOR THE SECRETARY:

We were advised by the Coast Guard today that the LEXALA, an auxiliary yawl, was proceeding from Moorehead City to Wilmington, North Carolina, through the inside passage. It has on board five weeks' supply of stores and one Blue Diamond generator of 110 volts which is unattached. It is suspected of being manned by a crew of seven German reservists. The history of the LEXALA indicates that it is planning to put to sea possibly to supply a belligerent vessel with food and men and the generator. This would justify action under section 10(a) of the Neutrality Act of 1939.

I put the matter up to Mr. Kemp of the Department of Justice, and we were subsequently requested by Mr. Fisher, Head of the Criminal Division, to detain the vessel pending investigation. Appropriate instructions to this effect have been issued to the Coast Guard.

If you desire further information about the matter, I will be at home all evening. My home telephone number is North 5533.

Huntington Cairns

December 4, 1939

9:15 am

Present:

Mr. Ireys
Mr. Wilson

Mr. Ireys: You know what hwe have been doing on this (Amtorg disbursements for purchases, etc.)

HM, Jr: No.

Mr. Ireys: Nothing, according to the arrangements Herbert Gaston made with the Navy that they would continue with Amtorg and we would continue with the Germans. We have gotten them to give us these copies on Amtorg, but have done nothing.

HM, Jr: They come in every two weeks?

Mr. Ireys: Yes.

HM, Jr: When did the last one come in?

Mr. Ireys: November 20th is the date of the last one.

HM, Jr: This is a funny thing. The President brings it up at Cabinet and said he had lists of what Amtorg is buying and "I see they are buying a lot of aluminum" and he said, "What about it?" I said, "I get the lists too." He said, "How do you get them?" I said, "The same way you do." He said, "How do you get it?" I said, "You sent a man up to the house." He said, "That's right."

Then he turns to me, in front of everybody, and said, "Have you contacted Justice?" I said, "No. What has Justice got to do with it. They aren't breaking the law." So he said, "Well, you see that they stop buying aluminum." "I can't. It's legal." He said, "Well, you have done worse things before." But the understanding with the Navy, it's just as to source?

Mr. Irey: Here is the Climax Molybdenum Company, less than \$600,000.

HM, Jr: The only big thing is Climax. The President said they bought \$2,000,000. It's \$640,000. How in the devil does Chase know all this?

Mr. Irey: Their accounts are all with the Chase Bank.

Mr. Wilson: They might have taken copies of the cancelled checks, Sir.

Mr. Irey: I imagine those same sheets have been made available to the President, because they are copies of what the Navy has.

HM, Jr: I was trying to see if Climax appeared again.

Mr. Irey: Yes. You will find it several times in there. We can take those and get the total amount of Climax.

HM, Jr: Can you? And the dates? How long would it take you?

Mr. Irey: Fifteen or twenty minutes.

HM, Jr: Suppose you are back here at ten o'clock with it.

Mr. Irey: There are payrolls in there. They have a lot of names on their payrolls.

HM, Jr: Look at the number of Russians visiting. But that has nothing to do with us.

Mr. Irey: No. We just have done nothing with that at all. We have not even inquired how they get it or how Chase National Bank gets it. There are some things, like the Russians visiting here, I don't see how they get that.

Mr. Wilson: I think Naval Intelligence gets that from some other source.

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EM, Jr: Well, run through this and give me figures on Climax Molybdenum Company. That's the thing the President is interested in.

What I am interested in is anything that has to do with airplanes. Here's Volte. \$30,000, Aviation Corporation. Let's see if there are any names I know. Westinghouse Electric, \$157,000. That might be searchlights. Well, we can find out.

Mr. Irey: General Electric. Lot of electrical organizations in there.

EM, Jr: Amazing, they are buying so much grain!

Bought a little, not very much, Wright Aeronautic. Here's United Aircraft. They are buying from them. \$15,000 for Crank Shaft Machine Company. Bridgeport Brass, \$62,000. You might find out what that company, E. J. Schwabach is. I think it's grain, but you might find out. I am having Collins over here and he can take a look at this stuff.

But get together, just for ten o'clock, the Climax Molybdenum Company.

oOo-oOo

December 4, 1939

10 am

Present:

Capt. Collins
Mr. Gaston
Dr. White
Mr. Irey
Mr. Wilson

HM, Jr: This is kind of extra-confidential.

We are getting -- not going into the how, where or what -- the detailed purchases of the Amtorg. Now, the President told me at Cabinet that he wanted me to see that the Russians did not get any more aluminum. They are buying molybdenum, which is the same thing. Climax -- how much did they get?

Mr. Irey: \$3,120,000 since October 24th.

HM, Jr: Is that the same thing?

Capt. Collins: No, sir.

Mr. Gaston: It's a steel alloy.

HM, Jr: The way he put it, he did not want them to buy stuff which the French or English might be able to use. I told him I did not have any legal right to do this thing. He thought it was aluminum. They always inform him wrong.

Mr. Irey: We found the Aluminum Company of America, but a small amount.

Dr. White: He probably remembers a cable. There was a cable that came from Paris in which Rist spoke for the Government. He was hoping, he understood the Russians were buying and he was hoping we would find it necessary to use all those strategic materials ourselves rather than sell it to them and also, possibly, permit them to buy it later. I'll dig out the cable.

HM, Jr: The President said molybdenum, but he thought it was the Aluminum Company, which I don't think it is.

Mr. Gaston: It's a tempering alloy for steel.

HM, Jr: Says it's used in the manufacture of airplanes. We won't do any guessing. I thought what you would do, Collins, get hold of the Climax Molybdenum Company on an informal basis and ask them what orders he has got internally and externally and that we are interested.

Capt. Collins: Yes, sir.

HM, Jr: Is he crowded? More business than he can attend to? And if he has, maybe this order for Russia might be kind of delayed. You get the idea?

Capt. Collins: Yes, sir.

HM, Jr: And maybe he hasn't got all the business and, he hasn't, maybe I could get him a little business. See?

I want you two men (Collins and Irey) to go over this stuff together. While you (Collins) are here, drop back to White's office and go over this stuff. I was going over this, and, for instance, I notice they bought a lot -- make a note, Harry -- E. J. Schawbach. I think that's grain.

Mr. Wilson: Broker in commodities and metals.

Mr. Irey: 67 Broadway.

Dr. White: They have the items indicated?

HM, Jr: Yes. We have to guard this like everything.

Mr. Irey: Couple of things in there, no need of passing along.

HM, Jr: Let me go over this myself. They don't need this. Protect the source as much as possible.

Here: Aluminum Company of America, \$139,000. I am

going to give you these lists. Climax Molybdenum again.

Dr. White: How long a period do those lists cover?

Mr. Irey: Two weeks.

HM, Jr.: Incidentally, Harry, you will see that they are buying a hell of a lot of oil from Standard Oil of California. There are orders in here, small orders, for the Wright Aeronatics, not big. But I don't understand what they are doing with Schawbach. I think you will find it's grain.

Mr. Irey: Schawbach is a metals and minerals broker.

HM, Jr.: Here it comes again, Schawbach another \$190,000.

Dr. White: Before he moves on that, do you think it would be a good idea to have a memorandum on the molybdenum situation in the United States? How much exported, to whom, etc?

HM, Jr.: Yes. But I thought -- take him a day or two to get this fellow down, or their Washington representative. Unquestionably they have a Washington representative. After you have looked at it, return it to Irey and not let it get out of the building.

Capt. Collins: I will only want to pick out some items.

HM, Jr.: That's all. Then give it back to Irey. Don't let it get out of the building.

The big interesting thing is why should Russia be buying grain and where it is going. Maybe they are buying it for a friend of theirs.

Dr. White: They have always been buying some grain which goes, not always, but frequently, to the east coast.

HM, Jr.: If it goes to Vladivostok, it makes sense,

but if it goes to Bergen, that's something else.

Dr. White: I think we ought to watch it.

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 4, 1939.

[Handwritten signature]

TO Mr. White
FROM Mr. Hooker
Subject: Molybdenum

1. Uses

Molybdenum is used principally in the iron and steel industry for making special alloy steels. Improved processes of heat-treating and fabricating high-speed tool steels, in which part of the tungsten has been replaced by molybdenum have increased the use of molybdenum in this field.

2. World Production

Production of molybdenum comes from only a few mines. United States is by far the largest producer supplying 92 percent of world output in 1938. There have been no significant developments in the search for new sources during recent years.

Principal Producers in 1938
(In metric tons)

Australia	50
Mexico	483
French Morocco	258
Norway	450
Peru	153
United States	15,103
Yugoslavia	19
	<u>16,516</u>

The relatively small amount produced by countries other than the United States comes principally from Mexico and Norway with still smaller amounts being produced in French Morocco, Peru, Australia, Chosen, Italy, Rumania, Turkey and Yugoslavia.

3. Position of the United States

- (a) Molybdenum is one of the few ferro-alloying elements of which this country has ample supplies for its own needs. The Climax Molybdenum

Company in Colorado furnished 78 percent of the world output and 85 percent of the domestic output in 1938.

(b) Exports of molybdenum from the United States are not known exactly since they are not classified separately in trade statistics but they are believed to comprise 50 to 75 percent of the domestic production.

U. S. ^{S. R. imports} ~~exports~~ of molybdenum concentrates ~~to U. S. S. R.~~ in 1936 and 1937 were as follow:

	<u>Tons</u>	<u>Thousands of dollars</u>
1936	35	14
1937	3,511	3,463

(c) Stocks increased in 1938 due to record production in the United States in that year. No statistics as to stocks at the end of 1938 are available. Production in the United States in 1938 exceeded shipments by 7.5 million pounds.

(d) Prices

The price per pound of ferromolybdenum on December 4, 1939 was \$.95. There has been no change in this quotation since the first of the year and it may be purely nominal.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

270

December 4, 1939

MEMORANDUM FOR THE SECRETARY

The following are the officers of the Climax Molybdenum Company:

- President - Max Schott
- Vice Presidents - W. T. Woodside - Research
James B. Thorpe - Sales
Alan Tissock - Operations
C. M. Loeb, Jr. - Development
- Secretary - Harold Hochschild
- Treasurer - William H. Brady
- Purchasing Agent - F. W. McCarthy

The address of the company in New York City is 500 Fifth Avenue. The mine and mill are located at Climax, Colorado, and the conversion plant is at Longeloth, Pennsylvania.

The company is rated as in excess of \$1,000,000 and controls 95% of the molybdenum produced in this country.


Director of Procurement



*Read by Pres at lunch Dec 4.
He said "It seems very possible
in next year's business"*

TREASURY DEPARTMENT

WASHINGTON

December 4, 1939.

Amg
271

TO THE SECRETARY:

Attached is a statement showing my rough estimates of total budgetary expenditures for the fiscal year 1941. These estimates are not, of course, based upon any knowledge of the total estimates of appropriations submitted to the Budget Bureau nor the action of that Bureau or of the President on those estimates.

I have taken as a base the 1940 estimates of expenditures as contained in the budget last January and revised them upward to include the additional amounts appropriated by Congress for the agricultural program (approximately \$370,000,000) and additional expenditures on account of national defense due to the recent Executive Orders increasing the program of the military services. From this base I have deducted certain amounts which I think the President might reduce in the 1941 budget, although Congress may put some of them back, and then added an additional amount for increased national defense in 1941, interest, social security, etc. This brings me down to an estimated expenditure for the fiscal year 1941 of \$8,480,000,000.

Although the Treasury furnished the Bureau of the Budget early in October a tentative estimate of revenue for the fiscal year 1941 of \$6,300,000,000, I am quite certain, in view of what the group of

economists advised just a few days ago, that this estimate will not be anywhere near this figure. For the purpose of this statement, I have used the same revenue estimate in 1941 as we now have for 1940, namely, \$5,525,000,000. This leaves a deficit of \$2,955,000,000 for 1941. If additional revenues are received because of increased business in the calendar year 1939 or because of additional taxes authorized by the next Congress, this figure of course would be reduced.

National Defense. There has been some comment in the paper to the effect that the President contemplates putting certain items of expenditures increased because of world conditions in a separate category in the budget and has called it "Budget B". The figure referred to on several occasions has been \$500,000,000. It seems to me that we might go back to the 1939 actual expenditure of about \$1,000,000,000 for national defense as a base and any subsequent increase over that figure might be considered as due to the present world situation. It will be recalled that the \$575,000,000 appropriation for this purpose secured in the last Congress was also based on these conditions. If the figures for national defense for 1941 as I have indicated go as high as \$1,875,000,000 (\$1,475,000,000 in 1940 plus \$400,000,000 additional for 1941) I believe that the \$875,000,000 should be placed in the category of Budget B. There may be other items which should also go in this class such as the increases for Coast Guard, Federal Bureau of Investigation, etc., but I am not advised as to what these are likely to be. These would, however, be relatively small.

AWB

ROUGH ESTIMATES OF TOTAL
EXPENDITURES FOR THE FISCAL YEAR 1941

(In millions)

Revised expenditures for fiscal year 1940 as a base			\$ 9,450
Probable reductions in 1941 expenditure items as compared with the same items in the 1940 budget:			
F. W. A., general public works, etc. ..	\$ 500		
W. P. A., F. S. A., etc.	600		
Agricultural parity payments, etc.	300		
Commodity Credit capital restoration, included in 1940 budget which should have been in 1939 budget	120	\$ 1,520	
Add additional expenditures for 1941 over the same items contained in the 1940 budget:			
National defense	400		
Interest, Social Security, etc.	150	550	
Net reductions in 1941 budget as compared with 1940			<u>970</u>
Rough estimate of expenditures for the fiscal year 1941			8,480
Estimated revenue for 1941 (same as for 1940)			<u>5,525</u>
Net deficit on this basis			<u><u>\$ 2,955</u></u>

Note: Any additional revenues over and above this estimate obtained as a result of increased business or as a result of additional taxes authorized by the next Congress, will, of course, decrease the above estimated deficit.

awfB

December 4, 1939

3:00 pm

Present:

Minister from Sweden (Mr. W. Bostrom)
Mr. Cochran

Minister: I was sorry that I was not in Stockholm when you were there.

HM, Jr: I, too, was sorry. I had a perfectly delightful visit.

Minister: I have a question here from my Government -- if you buy Swedish or Finnish gold delivered in Stockholm?

HM, Jr: I think what they mean is that every once in a while some Government wants us to take delivery of the gold in a country and we have never done that.

Minister: You do not pay for it until it gets here?

HM, Jr: That is right.

I tell you what you do. I can only guess, but my guess is that what they want to know is whether we will buy Finnish gold and take delivery in Stockholm. We have never done it, but the President is in a very friendly mood towards Finland and you never know. You might ask them how much it is. I am thinking out loud. I do not want to give them any encouragement, because it has never been done. Wouldn't the Central Bank of Norway have gold?

Mr. Cochran: Here?

HM, Jr: No. In Norway.

Mr. Cochran: Yes.

HM, Jr: I am doing my homework out loud. It takes 24 hours from Stockholm to Bergen.

Minister: It takes about that. A night and a day by rail.

HM, Jr: For argument's sake, supposing they made a deal, Finland to Sweden and Sweden to Norway, and we took delivery of it in Bergen. Those Central Banks can adjust it among themselves.

Mr. Cochran: Yes. It could be a swap between the Bank of Sweden and Finland.

HM, Jr: Cochran suggests that Sweden buy \$10,000,000 gold from Finland and then you sell us \$10,000,000 of gold here in New York.

Minister: Finland

HM, Jr: You can pay Finland and we can pay you the same minute here. You have gold here.

Minister: The Finns have to

HM, Jr: (To Mr. Cochran) Please go get your gold sheet.

(To the Minister) I am trying to find some way of helping you.

Minister: Why didn't they think of that themselves? We have considerable gold here. Perhaps they want to leave it here.

HM, Jr: Find out where they will deliver the gold.

Minister: They say here in Stockholm. I think they are thinking of selling the gold they already have in Stockholm to you.

HM, Jr: I think you will have to get more information.

(Mr. Cochran returns with the gold sheet.)

HM, Jr: (Referring to the gold sheet.) You have \$88,000,000 gold. I have just left the President and I know how he feels about Finland. I want to repeat

that up to now we have never done this. I want to give you enough information so that you can cable back to your Government. I know that every minute counts.

Mr. Cochran: Is it the desire to get the gold over here?

Minister: The telegram says "Do you buy Swedish or Finnish gold delivered in Stockholm?"

Mr. Cochran: There are private banks which have made advances. That is, private banks in New York have made dollars available to European Central Banks during transit of gold to the United States, where it is sold upon arrival to the Treasury and the advance repaid.

HM, Jr: Where did they take delivery?

Mr. Cochran: They made the advance when gold was put on at Bergen. It was on a Norwegian or Swedish ship.

Minister: The question seems to me to be perhaps they wonder, on account of shipping risks these days.....

HM, Jr: As a thought, inasmuch as this proposal comes from Sweden and Sweden has \$68,000,000 of gold here, and supposing that Finland wants to sell us \$10,000,000 worth of gold, we will pay for it on delivery in Stockholm provided that the Swedish Government will set aside \$10,000,000 gold here pending the arrival of the Finnish gold. You would be doing something for Finland and so would we.

Minister: The insurance is very high.

HM, Jr: The Finns would have to pay for it.

Minister: Why can't the Swedish Bank loan that to Finland themselves? What I am thinking is perhaps it would be embarrassing in the political situation.

HM, Jr: For Sweden, possibly. If you set aside \$10,000,000 here, nobody would know it.

Minister: We are just the intermediary between

Finland and you. Shall I ask them, first, how much it is?

HM, Jr: You could put it this way: I am making this proposal, subject to the approval of the President, that we stand ready to buy any amount of Finnish gold in Stockholm and pay for it on delivery in Stockholm, provided that (a) the Finnish Government pay all expenses of shipping and insurance of this gold on the first available steamer from Bergen; (b) pending the arrival of this gold in New York, the Bank of Sweden segregate a corresponding amount of Swedish gold in the Federal Reserve Bank to constitute a guarantee of payment.

I suggest that you and Cochran write a cable in cable language.

I want to make one more point. Shouldn't we get a guarantee that Norway will permit the gold to go through its country? Cochran, you might look up the ships. The movement of this gold and all expenses would have to be paid for by Finland; that is, from Stockholm to New York.

After you have written it, while this is going on, I will ask the President to O. K. it and then Cochran can call you and give you an O. K. I will try to see the President tonight if I can. Do you think you ought to tell the Finnish Minister about this?

Minister: I called him before I came over here to see you, but he was in New York.

HM, Jr: But you will tell him?

Minister: Yes; I will.

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December 4, 1939

My dear Mr. President:

Referring to our conversation at lunch today, there is attached a statement which I believe you can make at one of your press conferences regarding the Finnish debt payment.

We have not received official notice from the Finnish Minister that Finland intends to make this payment, but he has made a statement to the press that funds are in this country and that the payment will be made on December 15 in New York in the usual manner. The statement is framed so that you can make the announcement at any time, but it may be that you will want to wait until you receive official confirmation that Finland will make the payment on the due date. If you prefer to wait, the statement should be revised.

Faithfully yours,

The President,
The White House.

Enclosure
DWE:SLM

FOR USE BY THE PRESIDENT IN HIS PRESS CONFERENCE

There is due and payable from the Government of Finland on December 15, 1939, on account of its indebtedness to the United States, the sum of \$234,693. The Press reports that the Finnish Legation has indicated that its Government intends to make payment on the due date and that funds are in this country for that purpose.

I have instructed the Secretary of the Treasury to accept this payment when tendered and to hold the amount thereof in suspense and not to cover it into the Treasury until Congress has had an opportunity to act on my recommendation, to be included in the annual message on the state of the Union, that in view of the heroic efforts which Finland is making to defend its liberty, the amount of this payment be turned over to the Finnish Red Cross to be used in the relief of suffering.

Rec'd. by Mr. De. 9.

CORRECTED COPY

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GRAY

Berlin

Dated December 4, 1939

Rec'd 3:30 p.m.

Secretary of State

Washington

2217, December 4, 2 p.m.

Department's 914, November 18, 4 p.m.

One. Only meager statistical data are available regarding the quantities of potatoes, cabbage, turnips and other vegetables available for human consumption in Germany. It is expected that some 28 to 30% of the 1939 potato crop which totaled 56,280,000 tons will be used for human consumption. Some 76,500 metric tons of peas and 7,900 metric tons beans were harvested in 1939 in the old Reich all of which were available for human consumption.

Statistics covering the production of other vegetables are not available but official crop forecasts indicate that the cabbage crop is between average and good, the cauliflower harvest is average while the red cabbage and kale crops are reported to be better than last year. A satisfactory harvest of onions, celery and carrots is anticipated. Crops of string beans, tomatoes, and cucumbers

- 2 - #2217, December 4, 2 p.m. from Berlin

cucumbers are all reported to be larger than last year.

In recent years domestic production has supplied the following percentage of the German consumption of vegetables, meat, butter and cheese: vegetables 93%, meat 90%, butter 75%, cheese 80%.

The greatest deficiency and real danger as regards food supply is the "gap" in the supply of edible fats; only 55% of local requirements are obtainable from domestic production.

Two. The food rationing regulations divide the civilian consumption groups into the following four main categories listed in the order of size of their food allotments: (1) heaviest workers; (2) heavy workers; (3) ordinary adults; (4) children (rations varying according to age of child).

Small additional rations (100 grams meat and 20 grams of fats per week) are granted to persons working a ten hour day, working on night shift or living considerable distances from their place of employment.

(END OF SECTION ONE).

KIRK

EMB-JRL

PARAPHRASE OF PART OF SECTION TWO OF
TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: December 4, 1939, 6 p.m.

Rec'd: December 4, 1939, 11:40 p.m.

No. 2217

CONFIDENTIAL

CONFIDENTIAL

The heavy workers and heaviest workers mentioned in the paragraph above work mostly in industries occupied with mining and metallurgy. When these categories were inaugurated about 1,100,000 persons were included therein. However application of the regulations seems to be more liberal than then contemplated and consequently more persons than the number given may be getting a more liberal ration. Numbers with regard to other categories have not been announced but may be somewhat as follows based on a population of 80,000,000 with Czechoslovakia and Poland excluded.

Children's rations are received by about 17,000,000 below fourteen years old.

Mobilized men number about 4,000,000 and the rationing system for civilians does not apply to them.

The heavy workers' and heaviest workers' rations are probably received by some 2,000,000 persons leaving 57,000,000

to

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to receive the normal ration with a possible supplement in individual cases for long employment hours.

END OF CONFIDENTIAL

The importance attached to the proper feeding of laborers is indicated by the table set forth below "Taken from the National Socialist Ischeland Post" comparing the total number of calories represented by the rations of the two labor groups with the calories contained in the rations issued to soldiers:

Heaviest workers 4,206 calories, soldiers in the field 3,655 calories, heavy workers 3,400 calories, soldiers in garrisons 3,320 calories.

According to this "heaviest workers" are allotted a greater number of the calories than soldiers in the field and the total for "heavy workers" exceeds that of "soldiers in garrisons".

Three. With the exception perhaps of a small minority of labor particularly in the textile trade which is handicapped by unemployment and low wages the full official ration can be obtained by all with the qualification that perhaps at times it cannot be secured on the particular day when the consumer desires it and perhaps not always in the quality preferred by the consumer.

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The cost of the weekly normal food ration when fully utilized by the consumer can be estimated approximately at three marks. To this must be added the non-rationed foodstuffs notably potatoes and vegetables which make up a substantial part of the diet of a worker with small income. The total outlay of food per person in the low income groups probably does not exceed four marks per week.

PARAPHRASE OF PART OF SECTION THREE OF
TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: December 4, 1939, 2 p.m.

CONFIDENTIAL

Rec'd: December 4, 1939, 10:21 p.m.

No. 2217

CONFIDENTIAL

The amount of outlay for food differs on the basis of differing incomes because foods like vegetables and fruits which are not rationed and which are somewhat high in price are for this reason not within the means of persons not in the higher wage or income groups.

On the basis of a study made in 1937 by the Reich Statistical Bureau concerning the budgets of the families of workers, a four person family with annual income of 1800 Reichsmarks was then spending for food 57% of the income or about 857 Reichsmarks or approximately 16 Reichsmarks each week. This amount slightly exceeds estimates of 14 Reichsmarks per week made as a cost of the weekly ration (for a family of four) taking into account also vegetables and potatoes which are not rationed. If annual family income drops below the 1800 Reichsmarks figure as is now possible in the case of workers in the textile industry and
others

-2-

others at present on reduced working hours difficulty might be met in purchasing the full ration with this lower income. The fat ration is so arranged at present that more than 50% is to be availed of in butter rather than in less costly lard or margarine thus placing low income groups at some disadvantage in securing the fat ration, although some people have sufficient means to procure the present ration.

END OF CONFIDENTIAL

No special provision has been made by the Government to assure that all are provided with the full ration. It may be assumed, however, that relief would be given to needy cases by the labor front or the National Socialist Welfare Organization.

The sale of whole milk to adult persons is prohibited. The sale of skimmed milk which has been free is now regulated to the extent that purchasers must register with a certain store and must confine their purchases to that particular shop.

Four. In addition to the crop returns given under heading I it may be stated that the grain crop of greater Germany in 1939 aggregated 27,400,000 metric tons of which 14,970,000 metric tons were bread grains.

Agricultural

-3-

Agricultural production in Poland is reported to have been well maintained and to have suffered relatively little despite the war and other adverse influences. The grain and root crops were harvested and the winter grain was sown. A good potato crop is reported for the Polish territory now controlled by German troops. The crop will be used in the first place to satisfy human consumption needs of the district and any surplus will be used for industrial and feeding purposes. Losses of livestock, particularly pigs, are reported and measures have been taken to increase the hog population.

Data on food reserves in Poland are not available. In the opinion of German experts no food supplies will be obtained from Poland this year a surplus is anticipated in 1940 however.

A considerable potential agricultural production is presented by Poland. It is not expected that this latent capacity will be touched for some years, however, dispossessions of Polish farmers and their replacement by German agriculturists is tending to disturb conditions and will affect unfavorably this year's and also next year's farm output.

Five. Nothing is known with regard to the possibility and practice of mixing inert substances in ground meat preparations

preparations and in bread.

The size of the feed reserves now on hand in Germany other than grain and potatoes remains an official secret of great military importance and shall not be divulged under present conditions.

A bread grain reserve of 8,600,000 was reported as on hand after this year's harvest. The bread grain requirements of the old Reich were 9,000,000 metric tons yearly. The average annual consumption of all grain for all purposes equals 25-26,000,000 metric tons.

HSM

GRAY

Berlin

Dated December 4, 1939

Rec'd 8:40 p. m.

Secretary of State,
Washington.

2217, December 4, 2 p. m. (SECTION FOUR).

A potato reserve of approximately two million metric tons has been set aside from the 1939 crop. Of this quantity the association of the German potato trade has purchased 500,000 metric tons to be used in supplying the urban populations with potatoes in May, June and July of 1940. This step was taken owing to uncertainty respecting Germany's imports of potatoes next spring. Peace time consumption of potatoes for edible purposes is reported to approximate 13 to 14 metric tons yearly in greater Germany. In addition 900,000 metric tons are converted annually into starch and sago.

Owing to the bumper potato crop the authorities have been able to ease the marketing regulations somewhat and the potato growers may now use potatoes from their crop for their own needs and for other specified purposes. The failure to include potatoes in the list of rationed
foods

ham -2- No. 2217, December 4, 2 p. a. (Section 4) from Berlin
foods also indicates the favorable reserve position of
that crop.

With reference to reserves of other foods no definite
information is obtainable. In the opinion of local experts
who were consulted on this question there are perhaps large
reserves of lard, bacon and canned pork and some reserves
of cold storage eggs and butter.

In considering possible food reserves mention should
be made of stocks of canned goods. Last summer measures
were taken to increase production of canned vegetables
and all this year's production has been stored. Sales
of canned vegetables to the civilian population have been
blocked since the outbreak of war and it is uncertain what
quantities if any will be released for sale towards the
end of the winter when fresh vegetables will be scarce.

Further data on food supplies may be obtained from a
report entitled "Food and feed situation in greater Germany"
dated May 10, 1939, submitted to the Department of Agri-
culture by Mr. Gordon P. Boals, Assistant Agricultural
Attache, Berlin, Germany.

The present raw material situation demands an especi-
ally elastic and adaptable production program. Important
sections of the foodstuffs industry are endeavoring to
meet the increasing demand by means of an improved utili-
zation of raw material for example rye, flour mills are
now

hsm -3- No. 2217, December 4, 2 p.m. (Section 4) from Berlin
now required to extract ten percent more flour from
exactly the same quantity of grain than was the case
a few years ago. The corresponding increase for wheat
is between five and six percent. This has resulted in
flour with a higher bran content. The flour is also said
to be of a poorer grade. In other branches raw materials
which are scarce are being mixed with others which are
more abundant.

The employment of various conserving methods such
as drying, pickling, production of sugar beet pulp, et
cetera, has permitted a greater use to be made of root
crops as fodder and thereby has enabled larger quantities
of bread grains to be raised.

Inform Treasury, Agriculture, Commerce. (END OF MESSAGE)

KIRK

WWC

Dec. 4, 1939

My dear Mr. Attorney General:

A question has arisen in this Department whether the issuance of a proposed press release, a copy of which is attached hereto, would violate sections 55(f)(1) and 4047(a)(1) of the Internal Revenue Code. Your opinion is requested on that question.

There is enclosed herewith a copy of the opinion of the General Counsel for the Department of the Treasury on the matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

Enclosures

HRF/awp
Typed: 12/1/39

Copied: lwb, 12/9/39

Dec. 4, 1939

293

My dear Mr. Secretary:

The question has arisen whether Treasury Department officers may, without violation of sections 55(f)(1) and 4047(a)(1) of the Internal Revenue Code, issue a press release stating certain matters that are contained in a closing agreement that has been concluded, under section 5730 of the Internal Revenue Code, with the Colt's Patent Firearms Manufacturing Company. The closing agreement was concluded in connection with a War Department contract which is subject to section 3 of the Act of March 27, 1934, 48 Stat. 505 (U.S.C. title 34, sec. 496), as amended.

The proposed press release would state, in effect, that the closing agreement provides (1) for Colt's to charge off as a direct factory expense, against its income from the contract, the cost of special tools, jigs, dies, fixtures, and gauges which must be acquired by the company to carry out the contract, and which are useful only for work under that contract; (2) for the War Department to certify to the Treasury Department the amount of the allowable deduction; and (3) that, if the special tools, jigs, etc., are used on work other than for the Government, a proper portion of their cost shall be charged against the other work and the deduction allowed under the Act of March 27, 1934, as amended, shall be reduced accordingly. Further information would be contained in the press release to the effect that, with respect to additional standard

equipment other than the special tools, etc., which Colt's must install to perform the contract, the closing agreement provides that the company will be permitted to charge off 10 percent of the cost each year as a depreciation allowance; and that, if, upon the completion of the contract, the fair market value of the standard equipment is less than one-half of the reasonable cost of the equipment, the company will be allowed a further deduction equal to the difference between the depreciation allowance and the fair market value.

In my opinion, the issuance by this Department of a press release containing the above information would not constitute a violation of the above-mentioned sections of the Internal Revenue Code.

Section 55(f)(1) of the Internal Revenue Code provides:

"It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment." (Underlining supplied.)

So far as that statute is concerned, it clearly does not prohibit the issuance of the press release. By its very terms it applies only to matters "set forth or disclosed in any income return" or "appearing in any income return". The matters in the proposed press release, being the subject of a contract yet to be performed, certainly do not appear in any income return. Any matter which would be disclosed in the press release is certainly not "set forth" or "disclosed" in an income return before any such return is made. Those words are in the past tense; they refer to matters already set forth or disclosed in income returns. The statute does not refer to the divulgence of matters that may be "set forth" or "disclosed". To say that it does is to put a gloss upon a statute which is highly penal. It is well settled, of course, that the meaning of a penal statute must not be extended beyond its "exact literal sense". Sarlls v. United States, (1894) 152 U.S. 570, 576. Penal statutes should be applied only to cases coming plainly within their terms. United States v. Northern Pacific Railway Company, (1916) 242 U.S. 190, 193.

Although the statute has frequently been the subject of judicial decisions, an examination of those decisions has disclosed no instance in which the question is discussed whether the terms "set forth" and "disclosed" refer to matters other than those that are already in returns. The reason would seem to be obvious. The statute so clearly does not prohibit the divulgence of information

which may or may not appear in a subsequent income return that no one has had the hardihood to argue otherwise to a court.

Section 4047(a)(1) of the Internal Revenue Code provides:

"It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and the offender shall be dismissed from office or discharged from employment. The provisions of this paragraph shall apply to internal revenue agents as fully as to internal revenue officers."
(Underlining supplied.)

The information contained in the proposed press release does not deal with the "operations, style of work, or apparatus" of the Colt's Patent Firearms Manufacturing Company. I am not aware that the persons divulging the terms of the contract have "visited" that Company in the discharge of official duties. The non-applicability of the statute is obvious.

Very truly yours,

(Signed) E. H. Foley, Jr.

General Counsel.

The Honorable

The Secretary of the Treasury.

PJW/KMB/avp
Typed: 12/1/39

Copied: lwb 12/9/39



TREASURY DEPARTMENT

WASHINGTON

December 4, 1939.

MEMORANDUM FOR THE SECRETARY:Re: Shipping.STATUS

British Ships Sunk	84	Approximate Tons
		329,935
American Ships Laid up	84	536,000

As British ships are now being withdrawn piecemeal, Danish, Norwegian, Japanese and other neutral tonnage taking over these berths; i. e. no British ships now operating New York - South America.

PROPOSAL

Substitute American flag ships on trade routes presently being covered by British ships, i. e.:

New York - South and South East Africa (52 sailings per year)

New York - Australia - New Zealand (45 sailings per year)

New York - Far East (54 sailings per year)

New York - India - Outbound (50 sailings per year)
Homebound(55 sailings per year)

PURPOSE

Release British ships for more important services from American ports to United Kingdom and France (where American ships cannot operate under Neutrality Law).

Place American ships presently tied up in useful operation returning thousands of seamen to employment. Divert outward African and Australian ships to cover Penang (for tin) and Singapore (for rubber) homebound. Japanese now carrying large quantity American rubber requirements.

DIFFICULTIES

Obtain full cooperation British Lines, which could only be done by instructions British Government.

Satisfactory working arrangement present operators of British ships in U. S. A.

Elimination of petty and selfish interests for good of whole shipping situation.

Basil Harris.

TELEGRAM SENT

JT

PLAIN

December 4, 1939

AMEMBASSY

LONDON

1546, fourth.

FROM TREASURY

"American Embassy, London.

The following is from the Treasury Department for your information and for repetition to the American Embassies at Paris and Berlin by mail.

On November 27 the Secretary of the Treasury offered for cash subscription, at par and accrued interest, an issue of 2% Treasury Bonds of 1948-50. It was announced that the amount of the public offering would be \$500,000,000 or thereabouts and that in addition \$50,000,000 of these bonds would be sold to Government investment accounts. For the benefit of small investors preferential allotment would be given to subscriptions for \$5,000 and under where delivery in registered bonds 80 days after the issue date is specified.

The Secretary of the Treasury has today announced that reports received from the Federal Reserve Banks show that
subscriptions

-2- #1546, December 4, to London

subscriptions to the above mentioned issue aggregate \$6,263,000,000. Subscriptions in amounts up to and including \$5,000, totaling about \$21,000,000, where the subscribers specified that delivery be made in registered bonds 60 days after the issue date, were allotted in full. All other subscriptions were allotted 8 percent, on a straight percentage basis, with adjustments, where necessary to the \$100 denomination.

HULL
(EF)

EA:FL:EB

PARAPHRASE OF TELEGRAM RECEIVED

300

FROM: American Embassy, Paris, France

DATE: December 4, 1939, 7 p.m.

NO.: 2896

FOR THE TREASURY DEPARTMENT.

Reference is made to telegram No. 2895 of December 4 from the Embassy, with regard to the visit of Andre Jaoul, the director of an important French electro-chemical and electro-metallurgical concern, who is going to London as a French member of the permanent executive committee on armaments and raw materials. We discussed further the application of the coordination agreement between the British and the French. Great things are expected of the agreement by Jaoul, who is heavily interested; he even visualizes that there will be a pooling of the resources of the British and the French which will carry on after the war is over.

Jaoul said that although the neutrals have not yet been approached, they will eventually "be compelled to go along with the Allies"; Jaoul mentioned the question of cheap French water power as an example of this "international" cooperation outside the more obvious factors involved in the single pooling of resources and purchases. He pointed out that this could be sold to the British in the form of products such as electro-chemicals and fertilizer, which produced in England by the use of British coal would be more costly - and the coal thus saved could be exported or used otherwise.

With

- 2 -

With reference to the neutrals, Jaoul mentioned Norway as an example, saying that country could be "persuaded" to give the British the benefits of her cheap power in fertilizers, and so on, and that payment therefore could be made in British or French products or in sterling or francs rather than in the dollars which naturally are preferred by the Norwegians. It was implied that Norway would lose her markets, other than the German orbit, if she did not like the arrangement. He said that they could multiply this example many times. He sketched in outline a picture of complete reorientation of trade zones, and remarked that it was his hope that the United States would "cooperate" to some extent, although he realized there were obstacles thereto of a political nature.

Jaoul gave the following as the two principal war objectives of cooperation between the French and the British - as distinguished from the long-term peace objectives:

(1) They would purchase as little as possible in dollars, thereby conserving for "necessary" purchases the maximum of foreign exchange. Word has just come to us, in this connection, that a number of import licenses calling for dollar exchange were recently obligatorily converted to sterling permits; one of these permits was said to be for the local Goodrich.

(2) To use any means available for increasing exports
from

from Great Britain and France.

In some parts of the world, Jaoul said, he imagined they would run into competition with the United States with regard to the latter objective. The organization of this vast plan, he admitted was most complicated, but he was optimistic that it could soon be accomplished. At lunch today we were told by Mr. Wayne Taylor, former Assistant Secretary of the Treasury, (he had just returned from London) that while he was in London he had talked with both Phillips and Bewley. He said they both were satisfied with the way British internal financial problems are progressing, and in particular with the public response to savings certificates purchases. For the present, he said, the British prefer to ship gold to the United States rather than ~~requisitioning~~ selling the requisitioned dollar securities, though Bewley added that the order of procedure is hardly important, that in the end we would get them both. Mr. Taylor found the British officials reluctant to give any indication as to when and how they thought acute pressure on the pound would arise. Recently when he went to Germany he found things very much better than the Allies pictured them. He believed that the morale was "quite good", and saw no indications of weakness, although the public would like the war to end on Nazi terms. He thinks that matters are relatively satisfactory in the economic field also, and that both in general foodstuffs and
in

- 4 -

in fact Germany should be materially aided by the acquisitions in Poland.

Mr. Taylor said that in Germany rolling stock is the one weak spot which is causing some anxiety. It is probable that shortages in oil and steel would develop eventually, depending on the war's tempo - which Mr. Taylor thinks will be a long-drawn out affair.

Mr. Taylor had of course left Germany long before the crisis in Finland became acute and therefore could not discuss the effect of it.

Both Swift and Mr. Taylor have found a great deal of cooperation from all governments with whom they have discussed Red Cross activities, and particularly from Germany.

Wednesday night Taylor leaves for Geneva, and Swift sails from Genoa.

Yesterday we had lunch with the Inspector General of Artillery and his staff at his headquarters in the field. We spoke with General Carence, who at one time was chef de cabinet for Painleve, and who was called back from retirement to take his present responsible position. He feels that without a smashing military victory there can be no peace - which view is just opposite to that held by Andre Jaoul. If General Carence's view is typical of the French General Staff, there is no doubt that it is the wish of the military that they finish with Germany once and for all and have a frontier on the Rhine, at least.

General

- 5 -

General Carence, with his officers, believes that only through a smashing victory can the Prussians be convinced and can Europe avoid mobilizations every few months and every twenty years the butchery of its youth. French will have to develop heavy costs in munitions, artillery and planes to obtain such a victory, he said. We asked about the practicability of using Black and Brown troops when an offensive came; his emphatic reply was that they could be used in this way, and that the Germans are terrified of them. He said they love an attack, and some of them are better than the French in handling machine guns. This was General Carence's answer to the winning of the war without destroying the youth of France completely. We asked him whether he would invade the Netherlands if he were the Vuhrrer or von Bratisch; he said that he would do so immediately, but whether or not this was wishful thinking we do not know.

END SECTIONS ONE TO EIGHT, INCLUSIVE.

BULLITT.

EA:LWW

ISM

GRAY

Paris

Dated December 4, 1939

Rec'd 9 p. m.

Secretary of State,
Washington.

2896, December 4, 7 p. m. (SECTION NINE).

This morning's AGENCE ECONOMIQUE contains the following paragraphs:

"Indirect transformation of the Johnson Law. The rumor is circulating in Wall Street that the Federal Reserve Board with a view to avoiding the repercussions of heavy sales (of securities) will authorize in spite of the prohibition of the Johnson Law advances against securities to the allies whereas the Johnson Law would require the immediate sale of such securities to obtain dollar credits.

From another source press reports mention a proposal to form a Canadian corporation which would become a holding company for American securities and would obtain authorization to issue a billion dollars of bonds at three or three and a half percent in the United Kingdom.

According to these same reports this proposal would
not

hsm -2- No. 2896, December 4, 7 p. m. (Section 9) from Paris
not meet any opposition because of the Johnson Law. It
is also thought that among the directors of this future
holding company there would be a certain number of
representatives of large American banks."

BULLITT

RR

JR

GRAY

307

Paris

Dated December 4, 1939

Rec'd 10:30 p.m.

Secretary of State,

Washington.

2896, December 4, 7 p.m. (SECTION TEN)

Swiss National Bank statement for November 30 shows gold holdings unchanged at 2,809.8 millions. Foreign exchange holdings down 6.8 millions to 341.9 millions. Note circulation at 2,011.6 an increase of 45.9 millions and sight liabilities down 48.1 to 827.8 million. Gold cover is 88.34.

It is reported that an official announcement states that following reorganization of the Caisse Generale de Reports et de Depots of Belgium (our telegram No. 2625, October 31, 7 p.m.) a new capital structure will be set up in the subscription to which the following will participate: the Banque de la Societe Generale de Belgique, the Banque de Bruxelles and the Societe Belge de Banque. Albert Jean Janssen former Finance Minister will head the organization. Belgian reports likewise indicate that the Government has had to "intervene" in the face of difficulties confronting the Credit Anversois.

BULLITT

RS:W/C

HSM

GRAY

308

Paris

Dated December 4, 1939

Rec'd 8:55 p. m.

Secretary of State,
Washington.

2896, December 4, 7 p. m. (SECTION ELEVEN)

It is reported that negotiations are under way for an arrangement which will guarantee 75% on deposits under 10,000 francs and 25% on deposits above that amount. Lavas comments as follows: "The Belgian banking system seems to be undergoing at present certain undercurrents. While the Caisse Generale de Reports et de Depots after having experienced important losses following the Mendelssohn crash is counting on reorganization to permit it to continue operations without interruption, the rumor is circulating with insistence that another important Belgian bank the Credit Anversois is in serious difficulties. This establishment appears to have suffered losses so high that not only its capital and reserves have been lost but also a small part of its deposits may be affected". The Belgian journal SOIR reports the arrest of the two managing directors of the Credit Anversois, Messrs. Stevens and Joseph Plas. (END MESSAGE).

BULLITT

ESM

PLAIN

London

Dated December 4, 1939

Rec'd 12:30 P. M.

Secretary of State,
Washington.

2532, December 4.

FOR TREASURY.

1. The press reports messages from New York regarding rumors of the formation of an investment corporation, probably Canadian, to hold and gradually liquidate British owned American securities or to pledge the securities against advances by the Federal Reserve Banks. The FINANCIAL TIMES, however, under New York date line December 3, publishes a statement by Finsent that these rumors are wide of the mark and that liquidation has been going on gradually by individual British holders which will continue. According to the same newspaper New York bankers know of no specific plan but state that large blocks of securities have already been taken over by banks and groups of individuals at prices below market quotations. This article concludes: "Wall Street's understanding is that, if some plan is worked out and adopted,

adopted, the United States Government in cooperation with the British Government will take the initiative. The auspices, it is believed, will be governmental rather than private."

2. In spite of heavy speculative orders for silver from Bombay on Friday and Saturday, which pushed the Bombay price to 31d. no business was done in London at that level and the silver price at the London fixing remained unchanged at 23 1/2d. for spot and 23 3/8d. for forward. The heavy demand for silver in India is said to be speculative and a result of a greater realization of the war since Russia's invasion of Finland. Nevertheless it is thought that the price increases for some of India's export commodities especially jute, cotton and hides may result in greater hoarding capacity, and though the speculative position in Bombay is considered to be unwarrantably large the Indian demand may eventually cause some increase in the London price. Meanwhile with the Bombay bullion market closed until tomorrow, the London fixing price remained unchanged again today.

3. The TIMES city column and also a special interview with the Minister of Labor printed in the MANCHESTER GUARDIAN foretell a change in the unemployment trend when today's count is announced. The Minister of Labor pointed out

hsm -3- No. 2532, December 4, from London

out that the turnover of labor being high the unemployment registers are abnormally swollen and stated that in the last three weeks unemployment among men was not increasing while among women it was decreasing.

JOHNSON

MCL

RECEIVED

DEC 8 1939

dated

R. W. Cochran

FEDERAL RESERVE BANK
OF NEW YORK

R. W. Cochran

OFFICE CORRESPONDENCE

DATE December 4, 1939

Messrs. Sproul, McKeon and Cameron SUBJECT

L. W. Knoke

512

Mr. Kobayashi called this afternoon to advise us of two more gold shipments from Japan as follows:

about \$ 20,000,000 per SS Awata-maru
sailing December 5, due December 19,

about \$ 20,000,000 per SS Kinkwa-maru
sailing December 6, due December 20.

Both shipments are for sale on arrival.

Mr. Kobayashi added that these shipments represented in part new production and part accumulation of gold; more shipments were to follow in the near future probably at closer intervals because the Japanese would, under prevailing circumstances, have to avail themselves of all shipping space available.

LWK:KW

62-000

FEDERAL RESERVE BANK
OF NEW YORK

B. M. Cochrane

OFFICE CORRESPONDENCE

DATE December 4, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

513

I called Mr. Cariguel at 8:10 p.m., after having had the call delayed by the French Military Censor. I referred to the 2,038 cases delivered to us this morning by order of Mr. Rousseaux and pointed out that we had received no instructions ^{from Paris} as yet. Cariguel replied that he would ask us to earmark the gold for account S. I pointed out that if it were a question of selling the gold in the near future he would save us a great deal of trouble if he would instruct us to sell right away because in that case we would not have to weigh the gold, which it would take a full week to do. I made it clear to him that we would, of course, follow his instructions whatever they were but that I wanted him to know the situation. I am sure Cariguel understood; he promised he would cable or telephone me tomorrow after speaking to Governor Fournier. Cariguel assumed that we knew why he had not advised us before, ^{because of} namely, the obvious necessity to keep transactions of this nature utterly secret in prevailing circumstances.

LWK:KW

December 4, 1939

314

FOR THE SECRETARY:

I saw Steve Early this morning, following his regular press conference, and explained to him that the Treasury newspapermen had asked for Treasury documents which show our preparations prior to the outbreak of war. I also told him that you would suggest asking his advice about what should be done. Steve said that he assumed that the Treasury had given nothing which was secret, confidential, or unneutral to Alsop and Kintner, and that this being true the same information could not properly be withheld from other newspapermen who requested it. He said that he thought we must maintain our "parity of treatment." He suggested that I call in the newspapermen who had made the request and give them an oral summary of the events which were covered by the Alsop and Kintner material. If we are asked for documents, he suggested that we say that we are summarizing the material for the newspapermen "just as we did for Alsop and Kintner." He said that this summary should be prefaced by the remark that it was historical feature material, not news, and he ventured the guess that the newspapermen would find very little use for it.

I raised the point of whether we were obligated to Alsop and Kintner to withhold this material until about the dates that their articles appear. Steve replied that he did not see how we could do so.

He then called Joe Alsop to tell him what had transpired and also what he had advised us to do. Steve told me after the conversation that Joe was inclined to blame Arthur Krock for the leak, but I told him that we had no knowledge of where the request originated.

From a public relations point of view, I agree with what Steve suggests with the possible exception of the point about not holding the

the material until approximately the time that Alsop and Kintner publish it. If you decide to follow Steve's suggestion, I will need a little time to get clearly in mind the material which I am to give the men orally.

ESD

PARAPHRASE OF TELEGRAM RECEIVED

116

FROM: American Embassy, Berlin, Germany

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

NO.: 2216

During the last week of November, there was an increase of 519,000,000 marks in the total Reichsbank investments in bills, collateral loans and eligible securities, bringing the total to 11,546 million marks. In the last weeks of September and October respectively the increases in investments were only 289 million and 159 million.

The above-mentioned increases are not large when compared with the abnormal enlargement of Reichsbank investments of 2199 million reichsmarks during the last week of August, when Reichsbank facilities were utilized to the full by banks and business in a semi-panic for liquidity.

Notwithstanding the fact that there was a substantial increase in Reichsbank investments for the last week of November, bringing the total for the month-end to 11,546 million reichsmarks, this total, while greater than that for the end of October (when it was 11,199 million), is still less than that for the total at the end of September when it was 11,844 million. This indicates that Government war-time borrowing has not yet drained the liquidity of the money market which has resulted from increased rationing restrictions on expenditure.

During the month of November there was an increase of

790

790 million marks in Reichsbank bill holdings, bringing the total to 10,148 million marks on November 30; this figure is, however, lower than that at the end of August, when it was ten thousand two (?) million. The decrease in holdings of eligible securities, which dropped from 1440 million marks at the end of October to 1037 million at the end of November was a considerable offset to the enlargement of the bill portfolio.

At the end of November, the item "miscellaneous assets", including direct borrowings from the Reichsbank by the Government, was only 1174 million as compared with the figure at the end of October, when it was 1874 million. The increase in note circulation was 155 million marks, having been 10,819 at the beginning of the month, and it was 10,974 million at the end; this figure is still a little bit less than the record of 10,995 million at the end of September. However, it is probable that the currency circulation would exceed the September record if we counted in the circulation of Rentenbank notes which are replacing silver. During the month of November there was continuation of the steady absorption of monetary silver by the Central Bank. On the last of the month the collateral holdings of the Reichsbank in monetary silver were 393 million marks as compared with the figure at the end of October when they were 273 million.

During

During the month of November there was only a moderate increase in the currency issue, but evidently "bank money" increased a great deal.

For the month of November Reichsbank clearings reached a several-years record of 128 billion marks; this compares with the October figure of 116 billion and the September figure of 118 billion. On November 30 the sight deposits at the Reichsbank were 1574 million marks; at the end of September they were 1602 million marks, and at the end of October, 1520 million.

It is requested that this telegram be repeated to the Treasury.

KIRK.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: December 4, 1939, 6 p.m.
NO.: 2895

PERSONAL AND STRICTLY CONFIDENTIAL.

FOR THE SECRETARY AND SECRETARY MORGENTHAU.

This morning we received Andre Jaoul at the request of Rist. Jaoul is a director of the Societe d'Electro-Chimie, d'Electro-Metalurgie et des Acieries Electriques d'Ugine. He is also one of the Blockade Ministry's leading technicians, and next week will leave for London as the French member on the Franco-British Permanent Executive Committee on Armaments and Raw Materials. With regard to molybdenum, he went over somewhat the same ground as Rist. Jaoul seemed to be fully informed as to conditions in the United States, and as to prices and production. He appeared to be well acquainted with the molybdenum interests and the American Metals Corporations.

The estimated production for Climax for the year 1940 is 28 million pounds molybdenum content and Climax stocks were 12 million pounds as of the end of September, 1939. Their costs, he said, are between 25 and 30 cents a pound, and about 75 their recent sales price. Minimum consumption

for

for the United States he said would be 10,000,000 pounds. This amount would be about what the French and British together would consume. Japan's consumption would be 3,000,000 pounds, and 750,000,000 pounds would be consumed by Canada and others. There would remain an exportable surplus, he said, of from fifteen to sixteen million pounds for Germany and Russia. Certainly after the first year of war, he said (and Rist had said the same) the Germans would be materially handicapped through lack of defiling metal unless new supplies from the United States via Russia could be obtained. Russia herself is not an important consumer, he said, therefore our exports to Russia are mainly for Germany. However, he did not indicate that decision had been reached by Great Britain and ~~Germany~~^{France} to lay out 10,000,000 dollars plus 725 exportable surplus next year. The supplies of the United States, he emphasized, are "potentially inexhaustible", and it would not be difficult to expand production.

It was his feeling that the price which Climax would ask for any agreement not to expand production over the next two years would be "very high"; in reply we said that presumably whether the price was considered "high" would be dependent on just how vital the Allied authorities regarded molybdenum to Germany's prosecution of the war, that ten million dollars was less than a half a day of war. He said in reply that he was neither the Ministry of Finance nor

the

the Minister of Blockade, and that they had not yet reached a decision. Considerable opposition to such a molybdenum deal has naturally been aroused because of the necessity for conserving every available dollar, he said, and remarked incidentally that the Netherlands is not itself a consumer of molybdenum but is one of our principal export markets, and presumably this country passes on to Germany its imports of American molybdenum.

Tungsten was then discussed by Jaoul; we are setting forth his comments for whatever they may be worth, realizing that his viewpoint cannot be entirely objective, though he impressed us favorably and as an intelligent person. He said that next year there is going to be a definite shortage of tungsten, and that molybdenum may be used in part to replace tungsten equivalents. Around 24,000 tons a year is the world production of tungsten, China producing roughly one-half of this amount. He said that requirements next year for Great Britain and France would be about 15,000 tons. He said unless we used molybdenum as a substitute, we should find it difficult to build up our needs. It is noted that tungsten is considered a strategic mineral.

Jaoul was, incidentally, quite critical of the purchasing methods of our steel makers with regard to tungsten, saying they purchase the mineral on a hand-to-mouth basis when they need it, from a group of tungsten brokers in New York which

is well organized and which consequently does quite a profitable business. Jaoul said that the United States pays on the average about 50 percent more for its tungsten than is paid by the French under their "purchasing policy" which has been used for some years; however, such a policy for the United States might have as an obstacle the restrictions of the Sherman Act.

We pointed out quite clearly to Jaoul, as we did to Rist, that the matter was not one in which the United States Government could appropriately intervene. He said that he perfectly understood, but added that in airplane manufacture, as well as in armaments, molybdenum is an important element. He wondered whether molybdenum might not be included in our recent "moral embargo" on American exports of airplanes and arms to Russia; we did not make any comment on this.

END MESSAGE.

BULLITT.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

323

December 5, 1939.

My dear Mr. Secretary:

I enclose for your information a copy of a strictly confidential telegram from the American Embassy, Paris, dated December 4, giving the substance of a conversation which Ambassador Bullitt had with Mr. Jaoul, a director of the Société d'Electro-Chimie, d'Electro-Metalurgie et des Acieries Electriques d'Ugine, and one of the leading technicians of the Ministry of Blockade.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Paraphrase, No. 2895 of
December 4 from Paris.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT

324

INTER OFFICE COMMUNICATION

DATE December 4, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

REFUNDING ISSUES

The following possible issues for a refunding operation might be offered to refund the maturing notes together with a new 1% 5-year note or reopening the recent 1% note (4 years, 3 months maturity, now quoted 101) and possibly reopening at a price the new 2% bonds (now quoted 101.23). The maximum limit on a 2-1/2% would be 18-23 years, selling at about 1 point 10/32nds to 1 point 17/32nds premium.

A 2-1/4% bond would fall in a rather heavy maturity area while a 2-3/8% issue or a 2-1/2% issue would allow a wider choice of maturity dates.

Bond Issues

<u>Coupon</u>	<u>Terms</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
2-1/2%	17 1/2 - 22 1/2 yrs. (9/15/57-62)	2.39 2.405	100 100	101.19 101.12	1 pt. 19/32 1 pt. 12/32
	18-21 years (12/15/57-60)	2.385 2.400	100 100	101.21 101.14	1 pt. 21/32 1 pt. 14/32
	18-23 years (12/15/57-62)	2.395 2.41	100 100	101.17 101.10	1 pt. 17/32 1 pt. 10/32
	2-1/4%	13-15 years (12/15/51-54)	2.12 2.14	100 100	101.12 101.5

<u>Coupon</u>	<u>Terms</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
2-3/8%	13-17 years	2.22	100	101.24	1 pt. 24/32
	(12/15/52-56)	2.24	100	101.16	1 pt. 16/32
	13 $\frac{1}{2}$ -17 $\frac{1}{2}$ yrs.	2.24	100	101.16	1 pt. 16/32
	(3/15/53-57)	2.26	100	101.11	1 pt. 11/32
	13 $\frac{1}{2}$ -16 $\frac{1}{2}$ yrs.	2.23	100	101.18	1 pt. 18/32
	(3/15/53-56)	2.25	100	101.13	1 pt. 13/32

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

326

DATE December 4, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

SUBJECT: Report of Meeting on the Business Outlook, held Thursday, November 30, 1939, in Mr. Haas' office.

Attending were the following representatives of the various governmental departments:

Executive Offices of the President:

Lauchlin Currie, Administrative Assistant to the President.

Bureau of the Budget:

Frederick J. Lawton,
Morris A. Copeland.

Federal Reserve System:

Frank Garfield, Senior Economist.

Department of Agriculture:

Eric Englund, Asst. Chief, Bureau of Agricultural Economics;
Frederick L. Thomsen, Principal Agricultural Economist, Division of Statistical and Historical Research;
Louis Bean, Head Agricultural Economist, Bureau of Agricultural Economics.

Department of Commerce:

Robert Nathan, Economic Analyst, Research Division of the Bureau of Foreign and Domestic Commerce.

Department of Labor:

Isador Lubin, Commissioner, Bureau of Labor Statistics.

The representatives of the Departments of Agriculture, Commerce and Labor, and the representative of the Board of Governors of the Federal Reserve System were asked to express their opinions on the levels of the Federal Reserve index of industrial production and the Bureau of Labor Statistics index of wholesale commodity prices for the first six months of calendar year 1940, the last six months of calendar year 1940 and the first six months of calendar year 1941.

SUMMARY

Present Level:

F.R.B. index of industrial production -

November, 1939 - 125 (estimate)

B.L.S. index of all commodity prices -

Week ending Nov. 25, 1939 - 79.0

Department of Agriculture Estimates:

F.R.B. index of industrial production -

Average for calendar year 1940 - 112
(low of about 100 in mid-year and rise
in last half of year)

First six months of 1941 - 118

B.L.S. index of all commodity prices -

Last six months of 1939 - 77
First six months of 1940 - 81
Last six months of 1940 - 83
First six months of 1941 - 86

Department of Commerce Estimates:

F.R.B. index of industrial production -

Average for calendar year 1940 - 110
(low in summer of about 100 - 105 and
rise in last half of year reaching
about 115 at end of year)

First six months of 1941 - 115 - 117

B.L.S. index of all commodity prices -

First six months of 1940 - 78
Last six months of 1940 - 80
First six months of 1941 - 81

Federal Reserve System Estimates:

F.R.B. index of industrial production -

Average for calendar year 1940 - 116-117
(First six months of 1940 to average about
113 and rise in last six months of year
with last half of year averaging about 120)

First six months of 1941 - 120

B.L.S. index of all commodity prices -

First six months of 1940 - 80
Last six months of 1940 - 83

Bureau of Labor Statistics Estimates:

Dr. Lubin declined to make any forecast of the business or price indexes. He directed his remarks primarily toward the discussion of trends in unemployment. In connection with the discussion of steel, Dr. Lubin pointed out that many of the orders placed in September and October were large enough to take care of the full demand of the particular companies for the first six months of calendar year 1940. He mentioned specifically automobile companies and shipbuilding companies, and he therefore expects a drop in steel production after the first few months of calendar year 1940.

- - - -

Mr. Bean stated as his independent judgment, as contrasted to that of the Department of Agriculture experts represented by Messrs. Thomsen and Englund, that the sharp recession predicted by the others would not take place. He places the index for the first half of 1940 at 120 to 125. He expects a moderate decline in the last half of the year and placed the index for that period between 115 and 120. For the first half of 1941 he expects an average of 115.

Mr. Bean's analysis appears to be based largely on what he called the course of a typical business cycle.

December 4, 1939.

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Dr. White

Mr. Cochran

1. Does the Treasury desire to encourage the idea of the creation of a Latin-American B.I.S.?
2. Would the United States be expected to provide the great part of the funds involved?
3. If so, would there be any advantage in setting up this new medium rather than utilizing the Export-Import Bank with which we retain control of loans in our own hands?
4. Would it not be easier to obtain from Congress an increased allotment to the Export-Import Bank than capital for a new and still nebulous organization which may be looked upon with considerable skepticism?
5. Would frequent meetings of the Latin-American Central Bank Governors be feasible, considering distance and travel difficulties? (This has been found the chief benefit of the B.I.S. to European Central Bank Governors).
6. Would not the problems of credits likely to be discussed fall more properly within the field of Finance Ministers?
7. Could not these questions, therefore, be adequately dealt with through present channels, including the Committee now established in Washington?
8. Could not this Committee also establish, if desirable, an economic and financial research section? (This has been another of the successful undertakings of the European B.I.S.).
9. Would it be wise for our Government to be a party to continuing illusions about ameliorating Latin-American conditions through unsound loans, a bookkeeping gold currency, silver, one-way financial cooperation, etc.?
10. Would it not be preferable to:
 - (a) Support the Bond Holders Council in negotiating settlement of defaulted Latin-American loans?
 - (b) Limit direct Governmental financial assistance to Export-Import Bank operations?
 - (c) Grant no assistance in countries where American property rights are disregarded and
 - (d) Thereby prepare the field for genuine long-term private lending of the type needed to develop Latin-American resources and exports?

- (e) Concentrate more seriously on improving our own economy and thus enlarging our capacity for Latin-American goods?
- (f) Encourage American firms to act as intermediaries for distribution of Latin-American goods to countries outside of the United States when our capacity therefor is exceeded?

B. M. S.

HMC/rmm/AMO

Treasury Department
Division of Monetary Research

Date 12/4/39 19

To: Secretary Morgenthau

From: H. D. White

Appended is a copy of a
letter and a list of questions I am
sending to Mr. Berle.

December 4, 1939.

331

Dear Mr. Berle:

Our informal committee of Federal Reserve Board and Treasury technicians met this afternoon to review a list of suggested questions which we had agreed to furnish you.

On further consideration of the questions formulated we feel strongly that the questions to be submitted to the 21 republics should stem from your subcommittee and should not be identified as coming from any one country, particularly the United States. Accordingly we suggest that each member of your subcommittee be asked to formulate a list of questions, that the subcommittee go over all of the lists with a view to formulating a single list of questions which the subcommittee will submit to all the countries.

With this reservation we are attaching a list of questions for your guidance in discussing the matter with your subcommittee. In view of the shortness of time, we have not sought to obtain the Secretary's approval to the questions, nor do we submit these as a final, exhaustive, or appropriate list of questions for circulation among the members of the committee.

While awaiting an indication of further developments from you, we will proceed with our study of a plan.

Respectfully,

H. D. White,
Director of Monetary Research.

The Honorable,

The Assistant Secretary of State.

KDW:lrs
12/4/39

1. If an inter-American banking institution would agree to buy prime commercial bills from your Central Bank, how large a volume of business do you estimate this institution would obtain from your country? How much of that business would be new and how much is now being handled by existing financial institutions: (a) foreign banks located within your country? (b) foreign banks located outside the country? and (c) domestic banks?

2. What are the prevailing rates of interest (a) for prime commercial paper; (b) for ordinary commercial paper, of 60- 90- 120- and 360-day maturities?

3. Is there a market in your country for short-term bills of less than 1 year maturity?

4. If an inter-American institution were to guarantee the prime commercial paper, do you think the rates of interest would be lower and could a demand for such bills on the part of local institutions and individuals be developed?

5. Is your banking system subject to such seasonal demands for financing that temporary credits extended by an inter-American institution would help to stabilize financial and economic conditions within your country? Do foreign banks adequately perform that function now? If these foreign banks do not meet your seasonal demands how are they met?

6. About a tenth of Latin American trade consists of trade among the Latin American countries themselves, -- is this intra-continental trade of your country materially obstructed at present by the lack of short-term credits? Are available banking facilities adequate for rediscounting export bills of intra-continental trade?

7. A group of service functions has been suggested for the inter-American institution such as: (1) To function as a clearing house for inter-American payments; (2) to function as fiscal agent and trustee for Central Banks and government.

How are your inter-American payments now cleared? To what extent are they carried out by private domestic banks? By foreign banks with Latin American agencies? Could the mechanism be improved by Central Banks in each country clearing directly through balances maintained with one another? What improvements might be effected by an inter-American Bank?

8. Would an inter-American institution which confined itself to providing short-term credits and performing routine services be of sufficient value to your country to warrant the support of the project by your country?

9. Would provision for personal contacts and collaboration between fiscal and banking officials of the various governments and for the purpose of studying and exchanging views on fiscal and banking problems be best provided for by the establishment of a Pan-American Bank?

10. It has been suggested that there is a considerable outflow of capital funds from the American countries to New York and other money centers for investment and security. How large do you estimate the volume of this outflow from your country in the past five years? What is the estimate of such funds now being held abroad?

11. To what extent do you feel that the creation of such an institution would reduce the fluctuations of the rates of exchange in your country on other American countries, or narrow the spread between the cross rates of American currencies and also narrow the spread between the buying and selling price of foreign exchange?

12. To what extent do you think that restrictions on transfer of funds are due to shortages of short-term credit, and could be remedied by provision of moderately greater short-term credit facilities than now exist?

13. What have been the significant developments during the past three months in the volume of your exports and imports, and in the gold and foreign exchange resources of your central bank? Do you consider these tendencies as temporary; are they likely to continue for the duration of the war; or, are they likely to be reversed as the war continues?

14. To what degree do you consider trade within this hemisphere capable of expansion, and in what ways do you consider that a new inter-American financial institution might increase the expansibility?

15. What specific dislocations and economic losses that your country is experiencing do you attribute directly to the war conditions now prevailing? What effect is the war having on the commercial and financial problems of your country and to the extent that such problems are being aggravated by the war, what steps can be taken to counteract the effect of the war?

16. If an inter-American institution were to be developed, would your country prefer that it (a) deal directly with the government or its agencies, or (b) with the central banks, or with the public at large?

Would your country wish such an institution to have relations with government-owned mortgage banks of your country with a view toward broadening the mortgage facilities in your country? Does your country have any preference or view with respect to the proportion subscribed by your country to a bank were one initiated?

17. What formulae do you suggest for allocating to the countries the amounts of capital to be invested in the organization of the bank?

18. If your country is in need of capital, how much capital do you contemplate that they would borrow through the medium of such an institution during the next five years?

19. Would your government be willing to submit its program of the uses of such fund to a special committee of such an institution created for the purpose of passing on the wisdom and security of such loans in order to protect the repayment?

20. What are your country's needs, if any, for long-term investments relating to rehabilitation of industries? Public Works?

21. What are your country's needs for a long-term loan of gold or other foreign exchange assets for purposes of currency stabilization? If your country has such need, does your government contemplate using up those resources within a year or two or more? What does the rate of utilization of those resources depend upon?

What criterion or criteria would your government use as to the rate of utilization of funds borrowed for purposes of stabilization of their currency?

If it is your opinion that the new institution is to be employed, among other purposes, for the stabilization of currency of the American countries, what limit would your government feel it desirable to impose upon the amount of the funds expended for any one country for that purpose?

22. What are your country's prospects for working out a program of lifting foreign exchange control? To what extent will the establishment of a Pan-American bank help in this direction?

23. To what extent would an institution that confined itself to short-term operations without putting more funds into your country than it took out -- except for limited periods -- meet the financial needs of your country?

24. In your opinion what criteria would be suitable for the institution to use in allocating its lending resources to the various American countries?

25. What role if any does your government feel silver should play in the functioning of an inter-American bank scheme and as a means of settlement of balance of payments among American countries?

26. What criteria should the bank use to determine when to operate to prevent short-term fluctuations in the value of any American currency? Is it expected that the various countries appeal to the bank to engage in operations or should the bank arrive at its decision entirely independent from the wishes and beliefs of the government whose currency is in question?

12/4/39

COPI

Original by air mail

No. 22

American Consulate
Hanoi, Indochina,
December 4, 1939.

336

CONFIDENTIAL

Subject: Indochina-Yuannan Railway to
increase Freight Capacity.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

Sir:

I have the honor to refer to my telegram of December 3, 12 noon, in which mention was made that the Indochina-Yunnan Railway would increase its freight capacity and thus alleviate to a certain extent the difficulties of transportation to China caused by the Japanese capture of Nanning. The basis of this mention was a statement by Mr. A. Bodin, Managing Director of the Railway, to the effect that he hoped to ship from 15 to 17 thousand tons during December, exclusive of service requirements, 18 thousand tons during January, and from 24 to 25 thousand tons by next April.

For the last few months the Indochina-Yunnan Railway has been active in securing additional equipment. To date, sufficient freight cars have been obtained to handle the maximum capacity mentioned above. According to Mr. Bodin, only a lack of locomotives has prevented a great increase in the railway's freight capacity. However, the railway has secured 6 locomotives from Kenya, which are now in Haiphong, 9 locomotives have been rented from the Indochina Government Railways, and 6 locomotives are shortly expected to arrive from Djibouti, where the Indochina-Yunnan Railway Company operates another line. Other locomotives are being sought.

Mr. Lecorche, General Manager of the railway, has expressed the opinion that the maximum tonnage mentioned by Mr. Bodin is somewhat optimistic. Other officials of the railway have stated that the efficient maximum freight capacity is from 18 to 20 thousand tons monthly. This opinion is based upon operating conditions, that the railway does not have sufficient sidings to permit extremely heavy traffic, sufficient yards at Kunming, and adequate trained personnel. In this latter connection, I am informed that a number of trained men have recently been mobilized and that the company will be able to replace them only with considerable difficulty. Under the best conditions, I believe that an average tonnage of 20 thousand is rather low.

Whatever the ultimate total tonnage handled monthly, the fact remains that the Indochina-Yunnan is operating at a higher level than at any time in its history and that serious plans are being made to increase its freight-handling capacity. Various important shippers have stressed their satisfaction with the efforts of the railway to assist the solution of the problem of transportation to China. The purpose of these efforts is of course far from being altruistic, but in effect these efforts will work out to the material benefit of the Chinese National Government. As I stated in my despatch no. 5 of October 13, 1939, the French, for one reason or another, appear to be cooperating with the Chinese in a solution of their problems, particularly under such circumstances that the cooperation does not arouse the suspicions of the Japanese.

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 General, Hongkong
Copy to Consulate, Saigon

815.4

CSR:csr

SUBJECT: Conditions at Haiphong subsequent to the Capture of Nanning.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 5 of October 13, 1939, depicting conditions at Haiphong, and to my despatch no. 21 of December 3, 1939, confirming the capture of Nanning by the Japanese and the consequent loss of the Dong Dang-Nanning road as a route of transportation to unoccupied China. As a result of the latter development, conditions at Haiphong may be described as being perhaps less satisfactory than on the date of the previous report.

At that time there was some prospect that the Chinese, with the assistance of the various American transportation experts, might work out a sound plan of transportation, which would enable clearing away the vast accumulation of cargo at that port. At this time, there appears to be no immediate prospect of reducing this accumulation, even with the increased railway facilities mentioned in my despatch no. 22 of today's date, unless a substantial part is transhipped to Rangoon.

At that time the Dong Dang-Nanning road was carrying about 15 thousand tons a month, this cargo being handled by trucks purchased by various Chinese governmental organizations. The Indochina-Yunnan Railway was averaging about 10 thousand tons a month, (with the exception of October when the railway was not operating). At this time, and at least for a few months to come, the tonnage that can be transported to China via Indochina does not exceed 25 thousand tons a month.

If no appreciable diminution of the accumulation of cargo could be effected at that time, it is only logical to surmise that nothing outstanding will be

accomplished at this time. Moreover, as mentioned above, much of the cargo was moved in trucks - and trucks formed a not inconsiderable part of the accumulation of cargo. Trucks can no longer go by road and the Indochina-Yunnan Railway will not transport trucks, at least for the time being. The 2800 to 3200 trucks now in and around Haiphong create a problem.

One source of information states that the Chinese are already negotiating for ships to transport at least a major proportion of these trucks to Rangoon, as well as tires and other items. With the customary cynicism which seems to prevail when Chinese efforts to rationalize transportation are the subject of discussion, the majority of commentators believe that the negotiations will be unduly protracted or that, if the trucks actually arrive in Rangoon, they will lie idle there as now in Haiphong.

In connection with this problem of trucks, the Department may be interested to note that the great majority of observers here, including sellers of trucks, are agreed that China is over-stocked with trucks and that emphasis should be placed on the transportation of gasoline and other commodities to the exclusion of additional trucks. Mr. Chen Tea Chen (C. T. Chen), now directing the Southwest Transportation Company at Haiphong, is apparently adopting this belief, inasmuch as he will allot no space on the railway to trucks.

Up to the time of the closing of the Dong Dang-Nanning road, during the month of November, some progress was made in clearing the congestion at Haiphong, perhaps a net gain of from 8 to 10 thousand tons. Much of that tonnage is now flowing back into Indochina from points this side of the Japanese occupation. In many instances the French authorities, in permitting the return of this cargo, are specifying that the cargo shall not be stored at Haiphong.

Notwithstanding this small measure of success in clearing Haiphong, the general situation remains as chaotic as in the past. Within the last few days an American

truck representative having 200 trucks at Haiphong to be assembled found that the various parts were scattered over a line distance of 4 miles. The Chinese have indeed made an effort to clear the congestion but the result has only been superficial.

If the needs of the Chinese are primarily for petroleum products and if the railway space is allotted primarily and initially to these, the prospects of clearing the congestion at Haiphong are extremely remote, even though the shipment to Haiphong of certain commodities destined for China is said to be stopped in some instances and curtailed in others. A number of the foreign representatives, who have lived in Haiphong during the all too short life of the Dong Dang-Nanning road, have left for Rangoon to examine "possibilities" of truck transportation to China.

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

815.4

CSR:csr

THE WHITE HOUSE
WASHINGTON

December 4, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you read the enclosed
and speak to me about it?

F. D. R.

THE WHITE HOUSE
WASHINGTON

December 1, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: British Tax Rates.

I was told by Mr. Smith that you would like some information on British War Taxes. I am attaching a summary statement on the new taxes and the changes in previous taxes. You may be particularly interested in the National Defense Contribution, page 4.

These new taxes are expected to yield the following amounts:

(Millions of £)

Expected Increases in Yield

Rest of 1939,

Through

April 1, 1940

April, 1940-41

Income tax on individuals and companies	70	146
Surtax	5	8
National Defense Contribution enacted in 1937, and Excess Profits Tax	?	?
Estate Duty	1.5	6
Consumption Taxes	30.5	66.5


Lauchlin Currie

November 30, 1939.

British Taxes for the European War

The Finance Act (No. 2) of October 12, 1939, provides for drastic upward revision of the income tax, surtax, death duties, and many excises for the fiscal year beginning April 1, 1940, and milder changes for the balance of the present fiscal year. It was thus hoped to raise tax revenue by £ 107 million from the estimated £ 890 million for 1939-40, and by £ 226.5 million for the fiscal year 1940.

Income Tax

The standard rate of 27.5% in 1938 and 1939 was raised by the war act to 35% for the remainder of the fiscal year, and to 37.5% for the next year. This rate is subject, of course, to later revision.

At the same time, the old exemption and personal allowances were continued until April 1, 1940, but from then on they were reduced as follows:

	<u>Former</u>	<u>Fiscal Year 1940</u>
Exemption.....	£ 125	£ 120
Allowances:		
Single person.....	£ 100	£ 100
Married couple.....	£ 180	£ 170
Dependent child.....	£ 60	£ 50
Earned income.....	one-fifth	one-sixth
(Maximum allowance	£ 300	£ 250)

Taxable income is income on which the tax remains chargeable after taking these allowances. Non-resident foreigners are charged the full standard rate, without allowances, on income from British sources. Normally, the first £ 135 of taxable income is charged at 11.7%, one-third the standard rate, for the remainder of the year. Income above that is taxed at 35%. Beginning with the 1940-41 fiscal year, the rate will be increased to one-half the standard rate, or 18.75%, for the first £ 165 of taxable income, and 37.5% on the remainder. The slight reduction in tax allowed incomes under £ 140 to one-fifth the excess of income over the minimum exemption is continued, but decreased to three-eighths of the excess after April 1. Further relief is given a person proving that his actual earned income for 1939-40 fell by at least 20%, due directly or indirectly to the war, below his previous year's income; he may then be assessed, contrary to practice, on his actual earned income. The claim, however, must be made before April 1, 1941.

Surtax

Surtax is levied on individual incomes (including the gross income subject to taxation at the source) over £ 2,000, with no deductions for personal allowances or earned income. The rate ranged from 5.75% to 45% on incomes over £ 50,000, according to the first 1939 Finance Act of July 26, 1939, which was never effective for surtaxes. The rates were raised by the War Emergency Act of October 12, effective

for the same year (that is, January 1, 1940, when surtaxes on 1938-39 incomes are payable), as follows:

<u>Excess Income</u>	<u>Finance Act 1931 (II)</u>	<u>Finance Act 1939 (II)</u>
First \$ 500 of excess.....	5.5 %	6.25 %
Next 500 " "	6.875	7.5
" 1,000 " "	11.0	12.5
" 1,000 " "	16.5	17.5
" 1,000 " "	19.25	21.25
" 2,000 " "	22.0	25.0
" 2,000 " "	27.5	31.25
" 5,000 " "	30.25	37.5
" 5,000 " "	33.0	42.5
" 10,000 " "	35.75	45.0
" 20,000 " "	38.5	47.5
Incomes above \$ 50,000	41.25	47.5

The maximum total rate was 68.75% before the war, becoming 82.5% for the early war period, and will be 85% with the higher standard rate of 1940. (See page 9 for table of specimen taxes.)

Company Taxes

Companies are taxed at the standard rate of income tax on total taxable profits, including those distributed. As far as dividends and some other items (royalties) are concerned, this is merely

a collection of the tax at the source since the corporations recoup the tax by deducting it from dividend payments and the stockholder then calculates and pays income tax on income other than dividends. Therefore, upon the companies themselves, a tax is imposed only on the undistributed share of profits. Through the increase in the standard rates, this tax on undistributed profits has been raised from 27.5% before the war to 35% for the rest of the fiscal year, and 37.5% for 1940-41.

National Defense Contribution

This "contribution" is a tax on profits, enacted July 30, 1937, amended July 29, 1938, and partially superseded by the Excess Profits Tax (see next section) of Finance Act (No. 2) of 1939. By this last, each of the two taxes continues to be computed independently, but only the higher is levied. The older tax remains in force, practically, for businesses with small or no excess profits.

The defense contribution covers all trades and businesses, whether carried on by individuals, partnerships or corporations, excluding only professions but not law as a business. The rate is 5% on companies, 4% on partnerships and individuals, and is levied on profits arising in each accounting period falling within five years from April 1, 1937. Enterprises with less than £ 2,000 profit are exempted, and the tax on profits between £ 2,000 and £ 12,000 is reduced. Profits are computed as for income tax, but additional

deductions are allowed, for interest, annuities, etc., payable out of profits, royalties and sometimes rent, nor is the annual value of premises owned and occupied for business purposes included. But dividends, distributed profits, and payments to persons carrying on the business, except for a limited salary to full-time directors, may not be deducted. There are special provisions for building societies and financial enterprises. Although the national defense contribution is deductible from profits computed for the income tax, neither the latter nor the contribution may be deducted for calculating national defense payments.

Excess Profits Tax

The excess profits tax replaces the armaments profits duty levied by Finance Act (No. 1) on businesses with total receipts from armament contracts of £ 200,000 up.

The new duty levies on all trades and businesses a tax of 60% of the excess profits over the "standard profit".

The profits must be computed on the basis of actual profits. The same deductions are allowed, or disallowed, as for the National Defense Contribution. Furthermore, besides normal depreciation allowances, special ones are given on exceptional depreciation of plant or machinery installed after 1936, which assets will become obsolete or useless as a result of the war. Provisionally, the Commissioners may allow not over 10% of the net cost of such assets.

Capital for the excess profits assessment is computed as for regular income tax purposes, i.e., all assets at cost less depreciation allowances under both taxes. Investments are not included (unless income therefrom is included in excess profits, as for many financial companies), but borrowed money is not deductible in so far as it is covered by investments.

Relief is given the corporation with losses or sub-standard profits in a taxable year by providing that such "deficiencies" may be deducted from the excess profits of the subsequent year. The relief in case of a marked deficiency may last over several years, until it is covered by excess profits. Profits made in an accounting period starting April 1, 1939, or later, or in the part of a previous period continuing after that date, are subject to the tax. As also stipulated for the national defense contribution, the only exempt professions are those in which the profits are dependent mainly on personal qualifications.

The standard profit may be taken as £ 1,000, or, for a partnership or company in which the directors have a controlling interest, £ 750 per working (full-time over more than one-half chargeable period) proprietor, the total allowance^{is}/not to exceed £ 3,000.

An alternative method of determining standard profits allows an option to the trader: for a business begun on or before January 1, 1935, the profits of 1935, or of 1936, or of either averaged with 1937; if begun in 1935, the profits of 1936, or 1936 and 1937 averaged;

if begun after January 1, 1936, and before July 2, 1936, the profits of any consecutive 12 months ending after June 30, 1937.

If the capital in a taxable year is greater than the average capital in the standard period, the standard profits are increased by 8% on the capital increase for a company, by 10% for individuals, partnerships, or companies in which the directors have a controlling interest. Decrease in capital is likewise compensable for the assessment by a decrease in standard profits equal to 6% of the capital decrease. Elasticity to cover special circumstances is provided by allowing an appeal to the Board of Referees to establish a higher standard profit, although, except in rare cases, the new standard may not exceed an amount to provide for the standard period, 6% dividends on paid up ordinary shares, and fixed rate on other paid up stock.

Estate Taxes

The estate duty has been raised by 10% over the basic 1930 rate on estates of £ 10,000 to £ 50,000, and by 20% on larger ones, to reach a high of 60% on estates of £ 2,000,000 (as against 55% under the July, 1939, act covering deaths after April 25, 1939). The yield from the increases, effective for deaths after September 28, 1939, is estimated at £ 1,500,000 for the rest of the fiscal year, and at £ 6,000,000 for the next one.

Consumption Taxes

Consumption taxes were sharply raised, particularly on alcoholic beverages, sugar and tobacco. The additional yield from increases on these products was estimated at £ 30,500,000 for the rest of 1939-40, and at £ 66,500,000 for the next year; well over a third of these increases was expected from the doubling of tax on beer to 1 d. a pint. The sugar tax was raised even more sharply from 1 d. to 2½ d. (and sugars in process of manufacture correspondingly) to give an estimated increased yield of £ 26,500,000 over the fiscal period October, 1939 to April, 1941.

Some Specimen Incomes and Taxes Due as Per Cent of Income

Single Person

<u>Income</u>	<u>1939 - 40</u>		<u>1940 - 41</u>	
	<u>All Earned</u>	<u>All Investments</u>	<u>All Earned</u>	<u>All Investments</u>
125	-	-	0.6	1.5
150	1.5	3.9	3.1	6.2
300	5.8	12.8	9.4	14.7
500	14.7	21.7	17.6	23.8
1,000	21.4	28.4	24.4	30.7
5,000	38.9	41.0	41.6	43.5
10,000	50.3	51.4	52.9	53.9
20,000	62.7	63.2	65.2	65.7
50,000	74.1	74.3	76.6	76.8
100,000	78.3	78.4	80.8	80.9
200,000	80.4	80.4	82.9	82.9

Married Couple Without Children

200	-	1.2	-	2.8
300	2.3	4.6	5.0	8.1
500	9.1	16.1	12.3	18.6

(The tax is \$ 28 less than in the corresponding specimen for a single person.)

(The tax is \$ 26.5 less than in the corresponding specimen for a single person.)

Married Couple With Three Children

350	-	-	-	1.6
500	0.9	3.5	3.6	7.3

(The tax is \$ 91 less than in the corresponding specimen for a single person.)

(The tax is \$ 82.5 less than in the corresponding specimen for a single person.)

TREASURY DEPARTMENT
Washington

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December 5, 1939

FOR THE SECRETARY:

Bob Kintner, who will be in at 11:15, has written his column on the Treasury-White House tax situation -- without saying anything about a Hanes resignation.

ESD

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Columbia University
in the City of New York

SCHOOL OF LAW

December 5, 1939

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Dear Henry:

Pursuant to your request I have read over Mr. Randolph Paul's memoranda addressed to the President recommending a series of some forty-seven amendments to the Revenue Laws. I take it that what you want from me are mainly general impressions rather than a detailed criticism of each of the proposals. Indeed, to discuss them adequately would require a memorandum about as long as Mr. Paul's.

The recommendations as a whole are intelligently formulated and for the most part their adoption would improve the revenue laws. Any Congressman or Treasury expert would disagree, of course, with some of the proposals. For my part, I am strongly opposed, for example, to Recommendation No. 2 and No. 24 in Memorandum A, and No. 12 in Memorandum B. You will find that the greater part of these suggestions have been exhaustively considered within the Treasury in 1937 and 1938 and probably again this year. A number of the suggestions have actually been proposed to one of the Congressional Committees and for one reason or another have been found impossible of adoption. You will undoubtedly find a great deal of discussion of many of Mr. Paul's points in the five volumes of recommendations which Mr. Haas and his staff prepared for me in 1937.

As a practical matter, Mr. Paul has presented the President with a rather elaborate tax program such as the Treasury itself might well wish to present. There are at least three basic questions with respect to the proposals:

- (1) Can the sub-committee of the Ways and Means Committee and the Committee itself be induced to spend the necessary time on the consideration, drafting, and recommendation of an extensive tax program of this sort. Months of hearings in executive session and in public session would be required. I doubt whether a tax bill embodying as many detailed recommendations as this could

Dec. 5, 1939

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possibly be submitted to the House in less than three or four months at the very minimum.

(2) Has the Treasury the necessary time to complete its own home work on the proposals? The proposals will have to be drafted in statutory form and in a number of instances this will be a long and tedious task. Careful estimates will need to be made; the legislative situation appraised and further consideration given to the effect of the program upon the economy of the country. It will take several months to do this work properly before any recommendations are made to a Congressional committee at all.

(3) Does the Treasury regard a detailed program of this sort as the best available recommendation at this time? The proposals involve a long series of changes most of them comparatively minor in revenue effect but all of them more or less upsetting to the businesses and individuals affected. You are already confronted with a most serious revenue problem in the badly unbalanced budget which defense expenditures may unbalance to an even more serious degree. If there is to be a tax program at all, there is much to be said for a program involving comparatively few, although drastic, provisions which will really raise a good deal of additional money, rather than to peck away at taxpayers already irritated with a series of sections which are annoying but which individually do not produce much money.

Please do not take what I have said as being critical of the detailed aspects of Mr. Paul's program. It must represent an enormous amount of careful work and intelligent thought. What I have tried to say is that the main question presented to you is on a large scale a policy question -- whether as Secretary of the Treasury you wish to recommend a program of this sort at this time.

It was a real pleasure to see you in Washington and to find you looking so well. You certainly have a most difficult post and so far as I can see your troubles are apt to be greater rather than less. Nevertheless you can take a lot of comfort in the thought that those who are familiar with your work admire you greatly for your accomplishments.

Sincerely yours,

Russell Majors

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

December 5, 1939.

Secretary Hargrath

Mr. Cochran

STRICTLY CONFIDENTIAL

This morning I telephoned Vice President Knabe of the Federal Reserve Bank of New York and informed him of the Secretary's proposal of yesterday, made in answer to the inquiry of the Minister of Sweden in regard to the possible purchase by the United States Treasury of Finnish gold in Stockholm.

Mr. Knabe called me back this afternoon to let me know that the Federal Reserve Bank had today received a cablegram from the Bank of Sweden instructing the sale of \$5,500,000 in gold from its earmarked account with the Federal Reserve Bank. As a supplemental transaction, the Bank of Sweden had instructed the Federal Reserve Bank to credit the account of Finland's Bank with \$5,000,000. It thus appears that the Bank of Sweden is taking Finnish gold in Europe, selling its own gold in New York, and making dollars available to Finland here.

We do not yet know whether the proposal developed yesterday may also be utilized.



December 5, 1939.

Dear Mr. President:

I have pleasure in transmitting herewith a memorandum submitted to me, which refers to our discussion of yesterday in regard to the inquiry made by the Minister of Sweden with respect to the disposal of Finnish gold. I shall not fail to keep you informed of any further developments in the premises.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

H. Morgenthau, Jr.



December 8, 1950

*Closing
agreement
with
Walt*

My dear Mr. Parker:

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As a result of our telephone conversation, I am sending you herewith a transcript of my press conference yesterday plus the formal release.

I will again telephone you shortly as I would like to sit down with you and have a good heart to heart talk.

Yours sincerely,

Mr. George B. Parker,
1040 24th Street,
Washington, D. C.

December 5, 1950

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My dear Mr. Parker:

As a result of our telephone conversation, I am sending you herewith a transcript of my press conference yesterday plus the formal release.

I will again telephone you shortly as I would like to sit down with you and have a good heart to heart talk.

Yours sincerely,

Mr. George B. Parker,
1040 34th Street,
Washington, D. C.

October 8, 1960

My dear Mr. Parker:

As a result of our telephone conversation, I am sending you herewith a transcript of my press conference yesterday plus the formal release.

I will again telephone you shortly as I would like to sit down with you and have a good heart to heart talk.

Yours sincerely,

Mr. George B. Parker,
1940 24th Street,
Washington, D. C.

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FROM: MR. GASTON'S OFFICE

December 5, 1939.

TO: Secretary Morgenthau

Mr. Cairns called Mr. Berle at the State Department at 10:15 this morning and read him the informal opinion addressed to you and signed by Kemp, holding that we were justified on the basis of the facts as now known to us, in detaining the remainder of the vessels transferred to the French Line. Berle said that he agreed entirely with this opinion. Cairns then asked if Berle thought this a sufficient basis for the State Department to take up the matter with the French Embassy. Berle said it was sufficient and that if Cairns would send him a copy he would take it up with the French immediately. Cairns has sent a copy over to him.

WSS

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 5, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. V. KnobeBANK OF FRANCE,

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Mr. Cariguel called at 11:25 a.m. with reference to our telephone conversation yesterday. It was Governor Fournier's wish, he said, that the gold be melted and earmarked for account of the Bank of France. I replied that melting before earmarking was unnecessary, that it would cause expenses which might well be avoided and that we could readily earmark the gold taking the gross weight as established by us with a notation "said to contain _____ fine ounces". In other words, there would be no melting now, but only later on, if and when the gold is sold to the Assay Office. Mr. Cariguel replied that that would be satisfactory. When the gold would be offered for sale he did not know. The earmark should be effected for account E.

I told Cariguel that the weight list was on the way to New York from Montreal; that Mr. Rousseaux was still up in Canada but was expected in New York Thursday or Friday. Would I please try to locate Mr. Rousseaux in Canada and have him informed that he was not to come back to Europe nor to send back to Europe any of his associates without first telephoning to the Bank of France and that he was to telephone Paris when he came to New York.

LW:KW

Gene P... the copy

December 5, 1939.

Notes on World Production of Molybdenum and on Consumption by Certain Countries.

Production

The production of molybdenum for the year 1939, so far as can now be estimated, will be approximately as follows (figures are in pounds of molybdenum contained in all forms of molybdenum products):

U.S.A.

Climax Molybdenum Co.	-	22,000,000	
Kennecott Copper Corp.	-	4,000,000	
Molybdenum Corp. of America	-	600,000	
Miscellaneous	-	<u>200,000</u>	26,800,000

Other Countries

Mexico	-	1,000,000	
Norway	-	1,000,000	
Morocco	-	300,000	
Miscellaneous	-	<u>100,000</u>	<u>2,400,000</u>

Total for the World - 29,200,000 lbs.

As indicated above, Climax accounts for about 75% of the world production.

Because of business conditions Climax' production in 1939 will be lower than it was in 1938. During recent weeks, however, Climax has considerably increased its rate of production and at the moment is producing at the rate of approximately 28,000,000 lbs. per annum.

Kennecott's molybdenum is a by-product of copper in its Utah mine. Its molybdenum production therefore varies according to its copper production. Kennecott is known to have increased during the last few weeks its rate of producing copper and, hence, molybdenum.

Russian Purchases

Climax made a contract in January 1939 with the USSR for the total Russian requirements of molybdenum for the year 1939. Shipments against this contract are almost completed. The product is shipped to Russia, as to most European buyers, in the form of molybdenum sulphide concentrates. The requirements were estimated in the contract at 6200 metric tons of concentrates, with the provision that if the USSR needed more concentrates they would give Climax a chance to supply the same. They

did need more, so that the total shipments under the contract are estimated, instead of 8200 metric tons, at 8200 metric tons, equivalent to approximately 9,700,000 lbs. of molybdenum contained.

The molybdenum concentrates are delivered to the Russians f.a.s. New York or Baltimore, cash against railroad bill of lading. Climax has nothing to do with the shipping arrangements beyond that.

The total estimated Russian purchases of molybdenum for the past three years are as follows:

1937	-	8,700,000 lbs.
1938	-	5,000,000 "
1939	-	9,700,000 "

About a month ago Amtorg approached Climax regarding next year's requirements. They intimated that they would want to make a contract based on estimated requirements of 3000 tons for the year (which would be less than 40% of what they took this year) but with a provision similar to the one in the present contract whereby they might apply to Climax for further quantities. The discussion on the contract for 1940 was general in nature and came to no conclusion. Nothing further has been heard from Amtorg on the subject since then.

Under the contract the USSR guarantees not to re-export the molybdenum products as such and promises to consume the molybdenum in Russia. Naturally, Climax has no way of checking up as to the fulfillment of this guarantee once the material has been loaded on steamers for Russia.

In view of Russia's large purchases this year it would seem likely that she will begin 1940 with a large stock of molybdenum on hand.

Purchases by Certain Other Countries

Climax' sales to Germany, England, France and Japan for the last three years have been as follows (all in pounds of molybdenum contained):

	<u>1937</u>	<u>1938</u>	<u>1939 (to date)</u>
Germany	- 5,900,000	6,840,000	2,446,000
England	- 3,722,000	1,681,000	2,500,000
France	- 1,058,000	880,000	1,066,000
Japan	- 580,000	1,218,000	3,500,000

The consumers of the above countries, unlike Russia, make purchases also from other producers than Climax. Since, however, Climax accounts for 75% of the world production and since the other producers sell part of their molybdenum in the United States, it would be not far off to assume that the Climax sales to the four above mentioned countries account for at least 75% of the total purchases of the said countries.

Sales to Japan are made through the leading Japanese export-import houses. Deliveries to Japan, like those to Russia, are made f.a.s. American ports, cash against railroad bill of lading. The Japanese make a guarantee similar to the Russian that the molybdenum will not be re-exported but will be consumed in Japan.

London

Dated December 5, 1939

Rec'd 12:18 p.m.

Secretary of State,
Washington.

2542, December 5, 5 p.m.

FOR TREASURY.

1. With reference to the third paragraph of No. 2532 of December 4, the unemployment figures for November 13 published today show a decrease in unemployment since October 16 of 28,000, the chief improvement being among women and girls accounting for two-thirds of the decline. The net increase since the outbreak of war now stands at 170,000. This is roughly estimated to include over 80,000 registering for work for the first time. The improvements were well spread through most industries except for those seasonally slack at this time of the year such as building, agriculture and tailoring. The London area still shows an increase but the northern and eastern industrial areas show declines in unemployment. The month's decrease of 28,000 in the total is contrary to a usual seasonal increase of about 20,000. Nevertheless after allowance is made for persons absorbed into the armed forces it seems probable that actual employment must be considerably less than before the outbreak of war though

-2- #2542, December 5, 5 p.m., from London.

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though in some branches longer hours are doubtless prevailing. In spite of the turn in the trend the press generally cites the unemployment figures as another reason strengthening the already strong case for an economic general staff and a revision of the economic coordination machinery.

2. Orders for several million ounces of silver were received in London again yesterday and though London brokers were unwilling to accept them in full a fairly large business was done at 23 1/2d. Spot and a small amount for forward at 23 11/16d, the Indian Government being prepared to sell at the 23 1/2d. Price for delivery at the Bombay mint. Today's fixing price eased to 23 3/8d. spot and 23 9/16d. forward, and the turnover was very small, buying from India having practically ceased there being only small local London speculative buying today.

3. Exchange rates officially fixed have remained unchanged since telegram No. 2518 of December 1, 7 p.m., Finmarks were quoted 205 to 230 sellers today.

JOHNSON

WVC

December 5, 1939.

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Dear Mr. Keeshin:

This will acknowledge your letter of December 4th, which forwarded to the Secretary a number of copies of reports received from Mr. M. E. Sheehan. We are glad to have the information that they contained.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. L. Keeshin,
President, Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GEF/dbs

KEESHIN FREIGHT LINES, INC.

*Please
for Hall*

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

December 4th, 1939.

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

My dear Secretary:-

I am enclosing herewith copies of original reports received from Mr. M. E. Sheahan, concerning the details and outline of the re-organization plans for the transportation companies in China.

These are forwarded you for your information and I believe you will find them interesting and also indicating progress along the desired lines.

Yours very truly,

J. L. Keeshin
J. L. Keeshin.

JLK-O.

Encls.



C
O
P
Y

c/o Ministry of Communications
Chungking, China
November 18, 1939

Mr. K. P. Chen,
Universal Trading Corporation
830, 5th Avenue
New York City, New York
U. S. A.

Dear Mr. Chen,

With further reference to the proposed amalgamation of various transporting agencies of the Civil Government and Foo Shing Trading Corporation (Transportation Department) into a new corporation. The various phases of a merger of the magnitude contemplated have been given due consideration by ourselves in drafting suggested agreements and in conference with the various representatives of the Civil Government as well as the staff of Foo Shing Trading Corporation in China. You may be assured that at all times we have had in mind your final instructions in our last discussion prior to our departure from Chicago.

There is enclosed the following documents Numbers 3 to 6 in both Chinese and English;

1. Draft of Agreement concerning transfer of Foo Shing's transportation assets to the China Transport Corporation in exchange for capital stock of the latter company,
2. Draft of Agreement containing China Transport Corporation's guarantee to Export-Import Bank of Washington through Foo Shing and Universal Trading Corporation of an equivalent capacity to Foo Shing's trucks,
3. Proposed articles of organization of the China Transport Corporation,
4. Proposed articles of incorporation of the China Transport Corporation,
5. Proposed rules and regulations of the China Transport Corporation,
6. Organization chart of the new corporation,

With particular reference to the proposed corporation and the participation therein by the Foo Shing Trading Corporation; the enclosed documents bear corrections, to and including a conference between Foo Shing's representatives and ourselves on November 13th. The drafts of Agreements should not be considered a finished product as they represent in the briefest form the "meat" of the intent of the parties and do not include the legal terminology and protective devices customarily found in contracts of this nature and embracing as they do extensive operations and properties. They are in fact a draft of essential points to be agreed upon after which they should be turned over to competent counsel for such necessary elaborations as will afford protection to the parties.

In your review of the enclosures you will perceive many differences in these proposals over customary Chinese procedure, primarily in simplification, the selection of personnel and our studied effort to construct the new corporation on a solid base. This departure from customary procedure while apparently meeting with the approval of National Government officials with whom I have discussed the matter presents a managerial task of no small proportions and even though the properties are for all intents and purposes the properties of the National Government we were most anxious to avoid any semblance of partisanship as between the various divisions within the Government.

Uppermost in mind in all plans and negotiations leading towards the formation of the new corporation has been the welfare and particularly the maintenance of China's credit, which can best be assured through the smooth flow of necessary quantities of export matter. The continual shifting of the fortunes of war, in our opinion, require extreme flexibility and freedom of action without regard to the individual but to the nation as a whole. Under such circumstances competition between the various branches of the Civil Government result in economic waste and the sacrifice of individual ambitions are sometimes necessary in the public interest, this we have borne in mind at all times.

A word with respect to the Rules and Regulations, Articles of Organization and Articles of Incorporation might not be amiss. The Rules and Regulations and particularly Chapter 4 from Article 16 to 24 inclusive set forth very briefly the duties and functions of various officials.

You will note that it is proposed to operate via highway, railroad, water or air which accounts for the absence of reference to purely highway transport. You will also note in Chapter 5 Articles 25 to 28 that the policy of the corporation is to predicate the employment of personnel strictly in a businesslike

way and in consideration of fitness and ability only and that the salaries of positions are to be fixed and the line of succession through which promotions may be secured are through seniority and special training for the position ahead. Salaries in excess of nominal amounts as outlined in Article 28 can only be arranged through the Board of Directors. While the Board of Directors are scheduled to meet quarter-annually there is nothing in their charge to prohibit the organization of a committee within the Board to pass upon these matters.

In Article 30 of Chapter 6 a definite limitation of single project expenditures are placed in direct ratio to the responsibility of the various officials. The retention of a reasonable proportion of earned surplus is contemplated in Article 36 this we believe is quite important particularly under present conditions of fluctuating exchange and prices and to provide a "backlog" against possible calamitous visitations or other emergencies.

We anticipate the early translation and adoption of the United States Interstate Commerce Commissions uniform system of accounts for highway carriers. We believe through the use of this system of accounts that it will be possible to secure adequate control of the various departments and obtain a "yard stick" for measuring their efficiency. The Articles of Incorporation and the Articles of Organization while brief are self-explanatory.

In the preparation of all these documents they were first drafted in English and translated to the Chinese and again translated back to English with necessary modifications to accommodate Chinese characters, such precautions should assure a complete understanding on the part of all concerned.

It is the concensus here that the present is an excellent time to inaugurate the new corporation for the reason that the essential discussion period resulted in a considerable cross current of information both good and bad. This spreading of rumours and uncertainties has to a certain extent permeated various transport organizations and a clear decision at an early date one way or the other will permit either a resumption of normal operations or the quick commencement of operation by the new corporation.

Trusting the foregoing together with the attachments will give you sufficient information upon which to base a decision and that your decision can be made at an early date in order that we will not delay action any further than absolutely necessary, and

With kindest regards, I remain,

Sincerely,

(Signed) M. E. Sheahan

c.c. H. E. Dr. H. H. Kung
H. E. Minister Chang Kia-NGau
Mr. J. L. Keeshin

Draft of an Agreement between the Foo Shing Trading
Corporation and the China Transport Corporation

THIS AGREEMENT dated this ----- day of ----- by and between FOO SHING TRADING CORPORATION, hereinafter referred to as Foo Shing, and the CHINA TRANSPORT CORPORATION, hereinafter referred to as the Transport Corporation, sets forth the understanding between the Parties with respect to the acquisition by the Transport Corporation from Foo Shing of its properties used in conducting transportation and the operations to be conducted by the Transport Corporation of properties consisting of a fleet of automotive equipment, leaseholds, land and buildings and appurtenances thereto belonging together with machinery and tools, and all materials and supplies on hand or under order to be used in connection with the operation of the properties, a descriptive list and agreed values are included and identified as Foo Shing's properties in the list attached hereto and marked Exhibit "A" and the Parties hereto represent that all of the items included in Exhibit "A" are presently owned in fee simple.

In furtherance of a general plan to aid the National Government of the Republic of China in having the benefit of a more economical unit of transport and in furtherance of the Government's foreign trade, and for the general welfare of the nation, Foo Shing agrees to turn over to the Transport Corporation all of its properties enumerated amongst others in Exhibit "A", and

WHEREAS the values of the properties set forth in Exhibit "A" are agreed to between the Parties as correctly representing the value thereof, and

WHEREAS it is the desire of the Parties that the Transport Corporation shall operate the properties enumerated in Exhibit "A", maintaining such properties in good mechanical repair, ordinary wear and tear excepted, now

I
THEREFORE, as a condition of such transfer of properties by Foo Shing to the Transport Corporation, Foo Shing reserves the right within sixty days from due notice given the Transport Corporation to withdraw from this arrangement by returning the capital stock issued as herein contemplated or such portion thereof that represents the values of properties withdrawn as set forth in Exhibit "A" hereof, ordinary wear and tear excepted, provided further that should any dispute arise with respect to such withdrawal or in connection with any part of this Agreement, such dispute shall be referred to an Arbitration Committee comprised of five members, two of which members shall be selected by Foo Shing and two by the Transport Corporation the fifth member to be selected by the four members so selected, should the four members be unable to decide upon the fifth member, he shall be selected by the President of the Executive Yuan of the National Government of the Republic of China. The decision of the Arbitration Committee shall be final and binding upon the Parties hereto, and

II

Foo Shing is desirous of utilizing the facilities of the Transport Corporation for the transportation of its own or controlled cargoes, and

III

As payment in full to Foo Shing by the Transport Corporation

for such of the properties enumerated in Exhibit "A" as are owned by Foo Shing, the Transport Corporation shall issue shares of its capital stock of a value equivalent to the agreed value of the property of Foo Shing, with the understanding that the issuance of shares of stock of the Transport Corporation to other parties shall be on a similar agreed or replacement value basis for property and cash essential to the satisfactory conduct of transportation by the Transport Corporation, and

IV

Upon receipt of such capital stock so issued by the Transport Corporation, Foo Shing shall by a separate instrument transfer and convey unto the Transport Corporation all its right, title, and interest to such property so transferred, and

WHEREAS this Agreement sets forth fully the understanding between the Parties;

IN WITNESS WHEREOF the Parties hereto set their hands and seals in the City of Chungking, Province of Szechwan, in the Republic of China this ----- day of -----.

Attest

Secretary

Seal _____
Foo Shing Trading Corporation

Secretary

Seal _____
China Transport Corporation

Chungking
Nov. 15, 1939

Draft of an Agreement between the Foo Shing Trading
Corporation and the China Transport Corporation

THIS AGREEMENT dated this ----- day of ----- by and between
FOO SHING TRADING CORPORATION, (China), hereinafter referred to as
Foo Shing, and the CHINA TRANSPORT CORPORATION, (China), hereinafter
referred to as the Transport Corporation, sets forth the understanding
between the Parties with respect to guarantee by the Transport Corpora-
tion to Foo Shing of the fulfilment of Foo Shing's obligation through
the Universal Trading Corporation (USA) to the Export-Import Bank of
Washington (USA), all as contained in Article 9 of that certain
Agreement between Foo Shing and the Universal Trading Corporation,
a copy of which Article 9 is attached hereto and marked Exhibit
"A", and

WHEREAS in furtherance of a general plan to aid the National
Government of the Republic of China in having the benefit of a
more economical unit of transport and in furtherance of the
Government's foreign trade and for the general welfare of the
nation, the Transport Corporation undertakes to supply the trans-
portation needs of Foo Shing amongst others, and

WHEREAS Foo Shing has heretofore entered into an agreement
with the Transport Corporation covering the operation by the
Transport Corporation of automotive and other equipment, and

WHEREAS Foo Shing is obligated by that certain Agreement,
Article 9 of which is concerned herewith and marked Exhibit "A", and

WHEREAS it is the desire of the Parties that the obligation
of Foo Shing be assumed and guaranteed by the Transport Corporation,
now

THEREFORE the Transport Corporation represents and agrees to guarantee to Foo Shing that it will at all times make available for the transportation requirements of Foo Shing at all reasonable times and at such points and over such routes as can be traversed with reasonable safety and when notified sufficiently in advance to permit the economical adjustment of the balance of its traffic, trucks of an equivalent capacity to the 1,000 (2½-ton capacity) truck commitment of Foo Shing as set forth in Exhibit "A" attached, and the Transport Corporation further agrees to at all times own and operate a minimum of 1000 trucks of American manufacture and of a minimum of two and one-half (2½) ton capacity.

This Agreement shall become effective on the date of its signing and shall remain in effect until December 31, 1945, and shall continue thereafter until Foo Shing and the Universal Trading Corporation shall have discharged their obligations under the Agreement, an excerpt of which is included in Exhibit "A" hereof.

IN WITNESS WHEREOF the Parties hereto set their hands and seals in the City of Chungking, Province of Szechwan, in the Republic of China this ----- day of -----.

Attest

Secretary

Seal _____
Foo Shing Trading Corporation

Secretary

Seal _____
China Transport Corporation

Chungking
Nov. 15, 1939

Board of Directors
of the China Transport Corporation

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Articles of Organization

Article 1. The present Articles of Organization are drawn up in accordance with the stipulations of Article 11 of the Articles of Incorporation of the China Transport Corporation Limited.

Article 2. The functions of the Board of Directors shall be:

- (1) To approve all plans and budgets relating to the operation of the Corporation.
- (2) To approve all Contracts, Leases and Agreements relating to the operation of the Corporation.
- (3) To approve and promulgate important rules and regulations.
- (4) To make arrangements concerning the financing of the Corporation.
- (5) To decide on distribution of earned profit.
- (6) To approve all disbursements in excess of five thousand dollars (\$5,000) for single projects.
- (7) To decide on matters relating to the appointment and dismissal of senior officers above the rank of Assistant Superintendents.
- (8) To approve the salaries of all officers and officials whose duties require special fitness and determination of policies.
- (9) To study and consider all reports of the Corporation.
- (10) To approve all other important matters of the Corporation.

Article 3. Regular meetings of the Board shall be held every three months. Special meetings may be convened by order of the Chairman or motion of not less than two thirds of the members.

Article 4. The Chairman of the Board of Directors shall preside at the meetings of the Board. In the absence of the

Chairman at such meetings, he shall nominate one of the Directors to preside on his behalf.

Article 5. No meeting of the Board of Directors shall be held without a majority attendance; and no resolutions should be passed without such resolutions being agreed to by more than $2/3$ of those in attendance.

Article 6. Directors shall serve for a term of three years, and shall be eligible for re-election.

Article 7. The Corporation shall have one Managing Director who shall be appointed by the Board of Directors from among its members and he shall be responsible to the Board for his conduct and administration of all the affairs of the Corporation.

Article 8. Under the Managing Director, there shall be a secretary and necessary assistants to handle confidential matters which may be assigned to them by the Managing Director, to keep minutes of the meetings of the Board of Directors, and to serve all necessary notices.

Article 9. All matters to be submitted to the Board of Directors for consideration shall first be compiled into an agenda to be prepared by the Managing Director and the secretaries.

Article 10. The present articles of organization shall become effective on the day of their promulgation.

CHINA TRANSPORT CORPORATION

(Articles of Incorporation)

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1. The China Transport Corporation shall be a special charter company to be organized by special action of the Executive Yuan with the approval of the National Government.
2. The functions of the Corporation shall be:
 - a. To operate freight, passenger and express service via highway, railroad, water or air.
 - b. To manufacture and assemble automotive or self-propelled vehicles, and animal or human drawn vehicles.
 - c. To manufacture or assemble, store and disburse materials and supplies.
 - d. To own, lease or hire land and/or buildings and appurtenances thereto belonging.
 - e. To transport postal matters.
 - f. To construct and operate comfort and rest stations for the convenience of the travelling public and operating personnel.
 - g. To invest and hold in its name securities of other companies engaged in transportation.
 - h. To undertake any or all things pertaining to the conduct of transportation of passengers, freight and express service by highway, railroad, water and air.
3. The charter of the Corporation shall be for a period of 30 years subject to renewal by approval of the National Government.
4. The total capitalization of the Corporation shall be \$100,000,000 Chinese National Currency divided into 100,000 shares of \$1,000 each, to be subscribed and paid for in cash or equivalent values.
5. The shares of the Corporation shall not be transferable unless with the special permission of the National Government.
6. The Corporation with the approval of the Executive Yuan may contract foreign loans.

7. The Corporation shall have a Board of Directors composed of from five to eleven directors to be restricted to five (5) in number upon the inception of the Corporation, two (2) directors to be selected by Foo Shing and three (3) by the Ministry of Communications. The Managing Director shall be the ex-officio member of the Board.
8. The Chairman of the Board of Directors shall be elected from among its members.
9. The Corporation shall have a Managing Director to be appointed by the Board of Directors and, when considered necessary, the Board may appoint properly qualified Assistants.
10. The Corporation shall be registered at the Ministry of Communications and the Ministry of Economic Affairs.
11. The by-laws and regulations of the Corporation shall be passed by the Board of Directors subject to the approval of the Ministry of Communications.
12. The present articles of incorporation shall become effective on the day of their promulgation.

Chungking
Nov. 15, 1939

(Original in Chinese)

CHINA TRANSPORT CORPORATION (SPECIAL CHARTER), LTD.

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Rules and Regulations

Chapter One

General Provisions

Article 1. The China Transport Corporation to be known in the abbreviated form as C.T.C. and hereinafter referred to as the Corporation shall be organized by resolution of the Executive Yuan with a Special Charter sanctioned by the National Government of the Republic of China.

Article 2. The functions of the Corporation shall be:

- a. To operate freight, passenger and express service via highway, railroad, water or air.
- b. To manufacture and assemble automotive or self-propelled vehicles, and animal or human drawn vehicles.
- c. To manufacture or assemble, store and disburse materials and supplies.
- d. To own, lease or hire land and/or buildings and appurtenances thereto belonging.
- e. To transport postal matters.
- f. To construct and operate comfort and rest stations for the convenience of the travelling public and operating personnel.
- g. To invest and hold in its name securities of other companies engaged in transportation.
- h. To undertake any or all things pertaining to the conduct of transportation of passengers, freight and express service by highway, railroad, water and air.

- Article 3. The charter of the Corporation shall be for a period of thirty (30) years and may be renewed by approval of the Executive Yuan and the National Government.
- Article 4. The Head Office of the Corporation shall be located at Chungking, Szechwan, but may be removed to other localities as the Board of Directors may from time to time direct.
- Article 5. In serving public notices of the Corporation, newspaper advertisements shall be considered as the primary medium. Whenever expedient, such notification may be served by mail.

Chapter Two

Capital

- Article 6. The total capitalization of the Corporation shall be \$100,000,000 Chinese National Currency divided into 100,000 shares of \$1,000. each, to be subscribed and paid for in cash or equivalent values. The capitalization of the Corporation shall not be altered without a proper qualifying resolution of the Board of Directors.
- Article 7. The shares of the Corporation shall be numbered, and shall bear the official seal of the Corporation and the signatures of five members of the Board of Directors.
- Article 8. The shares of the Corporation shall not be transferable without the special approval of the National Government.

Article 9. The Corporation with the approval of the Executive Yuan may contract foreign loans.

Chapter Three

Organization

Article 10. The Corporation shall have a Board of Directors composed of from five to eleven members, restricted to five (5) in number upon the inception of the Corporation, two (2) Directors to be selected by Foo Shing and three (3) by the Minister of Communications, who shall select from among themselves a Chairman. The Board of Directors shall be the highest supervisory and administrative organ in the Corporation.

Article 11. The Corporation shall have one Managing Director to be appointed by the Board of Directors from among its members, and such Assistants as may from time to time be appointed by the said Board of Directors.

Article 12. The Corporation shall have under the Managing Director a secretary and necessary assistants.

Article 13. Under the Managing Director there shall be namely, (1) an Operating Department, (2) a Traffic Department, and (3) a Controller's Department, headed by a General Superintendent, a Traffic Manager and a Controller respectively. Whenever necessary, the said officers may have one to two deputies to assist them in the performance of their duties.

Article 14. Under the Operating Department there shall be the four divisions of Maintenance; Transportation; Stations and Terminals; and, Purchasing and Stores. Under the Traffic Department, divisions may also be established. Each division in the Operating Department shall have one superintendent to be assisted whenever necessary by Assistant Superintendents. In the Controller's Department there shall be a Supervisor of Safety and Insurance, a General Auditor, Treasurer, and an Auditor of Disbursements and Auditor of Receipts under the General Auditor. Sub-divisions or sections may be established under each of the said Divisions in accordance with the requirements of their respective functions.

Article 15. The Managing Director and Officers referred to in Articles 13 and 14 shall appoint or hire the necessary number of qualified staff members or employees to assure proper and efficient operation of the Corporation.

Chapter Four

Duties and Functions

Article 16. The Managing Director of the Corporation shall be responsible for the administration and operation of the Corporation, and to execute such resolutions as may be passed by the Board of Directors. The Managing Director shall be assisted in the discharge of his duties whenever

considered necessary by duly qualified Assistants.

Article 17. The Secretary of the Managing Director shall carry out such confidential assignments as may be assigned to him by the Managing Director; and shall keep records and attend to the secretarial duties of the Board of Directors.

Article 18. The General Superintendent shall report to the Managing Director and be charged with the following duties:

1. To direct the Operating Department and its personnel.
2. To initiate measures towards the more economical conduct of transportation in conjunction with other officers of the Corporation.
3. To inaugurate proper preventive maintenance program and a plan of general overhaul, repairs, and remanufacturing to ensure continuity of operation of all properties of the Corporation.
4. To direct all transportation functions and be responsible for the operation of all Corporation properties.
5. To plan and allocate available equipment to needed tonnage and other traffic requirements of the various government departments in cooperation with the Traffic Manager.
6. To perform such other duties as may be assigned by the Managing Director.

Article 19. The Superintendent of Maintenance shall report to the General Superintendent and be charged with the following duties:

1. To direct the operation of the division and its personnel.
2. To supervise and direct all maintenance functions and be responsible for proper maintenance and repairs of all the properties of the Corporation, ensuring continuity of operations.

3. To initiate measures towards the more economical conduct of transportation and to allocate equipment best suited for the type of terrain, and lading, over routes where traffic is intended, in cooperation with the Superintendent of Transportation and other officers of the Corporation.
4. To enforce disciplinary action in cooperation with other officers of the Corporation of personnel improperly handling the Corporation's properties.
5. To perform such other duties as may be assigned by the General Superintendent.

Article 20. The Superintendent of Transportation shall report to the General Superintendent and be charged with the following duties:

1. To direct the operation of the division and its personnel.
2. To be responsible for the physical operations of the Corporation's properties.
3. To work out schedules of allocation of equipment and personnel in cooperation with other officers of the Corporation to the end of effecting a more economical conduct of transportation and smooth running operation.
4. To keep the General Superintendent, Controller and Managing Director informed at all times of accidents involving damage to the Corporation's properties, and estimate of the damage to others and of the disciplinary action taken against offending personnel.
5. To inform the General Superintendent and the Managing Director of the status of available equipment together with his recommendations approved by the Superintendent of Maintenance for needed replacement equipment.
6. To perform such other duties as may be assigned by the General Superintendent.

Article 21. The Superintendent of Stations and Terminals shall report to the General Superintendent and be charged with the following duties:

1. To direct the operation of the Division and its personnel.
2. To conduct transportation business at all stations and terminals; to cooperate fully with the Controller, Traffic Manager and other department heads concerned to the end that a dependable and courteous service may be rendered to the travelling and shipping public; and to initiate measures leading towards the more efficient conduct of transportation.
3. To select competent personnel after a study into the requirements of the travelling and shipping public and the rules and regulations released by the several departments and reports incident thereto.
4. To investigate into the competency of the personnel in the discharge of their duties to the end that the dependable and courteous service to which the travelling and shipping public is entitled, shall result.
5. To perform such other duties as may be assigned by the General Superintendent.

Article 22. The Superintendent of Purchasing and Stores shall report to the General Superintendent and be charged with the following duties:

1. To direct the operation of the Division and its personnel.
2. To procure and distribute in accordance with the requirements of other departments, all necessary materials and supplies, machinery and tools, instruments, furnitures and stationeries.
3. To maintain at all times as low an inventory as would be reasonable for the supply of practical requirements.
4. To maintain proper and adequate records of materials and supplies under his direction.
5. To study the kind, price, and service value of such supplies required to the end that a sufficient and well balanced stock may be maintained.

6. To procure supplies of the standard and quality requisitioned by other department and division heads; no supplies below such standards shall be procured without the prior consent of the department or division heads and the approval of the General Superintendent or Managing Director in the order named in event of disputes.
7. To specify procedures relating to the purchase, transportation, storage, delivery and acceptance of materials and supplies.
8. To perform such other duties as may be assigned by the General Superintendent.

Article 23. The Traffic Manager shall report to the Managing Director and be charged with the following duties:

1. To direct the operation of the department and its personnel.
2. To direct the preparation of all rates and tariffs governing the transportation of passengers, freight and express.
3. To arrange and undertake transportation of mail matters, and effect all contractual arrangements with government and commercial agencies.
4. To keep informed at all times in conjunction with the Controller and General Superintendent of all expenses of operation, current transport requirements, and the future tendencies thereof, to the end that references may be had for the preparation of tariff rates and the formulation of business policies.
5. To prepare a uniform classification of freight and express commodities.
6. To act as a liason officer of transportation between the Corporation and the departments of the National Government.
7. To perform such other duties as may be assigned by the Managing Director.

Article 24. The Controller shall report to the Managing Director and be charged with the following duties.

1. To direct the operation of the department and its personnel.
2. To act as the custodian of the funds of the Corporation, and to direct all receipts and disbursements thereof.
3. To prepare monthly and yearly reports of the current finances and operating expenses of the Corporation.
4. To be responsible at all times for the insurance of the properties of the Corporation, and to assure the safety of personnel, cargo, passengers, mail and express entrusted thereto.
5. To introduce safety measures and initiate steps leading towards a more economical conduct of transportation.
6. To prescribe or approve all forms, reports, and accounting procedures.
7. To devise statistical systems and prepare analyses of the accounts of the Corporation, to the end that a clear review of the financial status thereof may be set forth.
8. To perform such other duties as may be assigned by the Managing Director.

Chapter Five

Personnel

Article 25. All officers and officials whose duties require special fitness and determination of policies shall be appointed and dismissed in accordance with individual contractual provisions. Any officer of the Corporation may hold one or more positions subject to the approval of the Board of Directors.

Article 26. The appointment or employment of all officers and employees of the Corporation shall be predicated on fitness and ability only.

Article 27. The fixing of salaries of all staff employees positions

shall be under the direction of the respective department and division heads of the Corporation and subject to the final approval of the Managing Director. The appointment, dismissal, transfer and discipline of staff employees shall be under the direction of the respective department and division heads.

Article 28. Salaries of employees under the heads of divisions in excess of \$500 per month; under the heads of Departments in excess of \$450 per month and under the Managing Director in excess of \$600 per month shall be fixed by the Board of Directors.

Chapter Six

Accounting Provisions

Article 29. All disbursements of the Corporation except such expenditures from Imprest funds (as may be established from time to time by the Controller, and in no event shall individual Imprest funds exceed \$500) shall be evidenced by vouchers approved and signed by duly designated officials or employes of the Controller's Department.

Article 30. No paying orders issued by the heads of divisions in excess of \$500 shall be valid unless approved by the General Superintendent or Managing Director, and by the heads of departments in excess of \$1000 unless approved by the Managing Director, and by the Managing Director in excess of \$5000 unless approved by the Board

of Directors. The aforementioned limitations are maximum amounts and are for complete projects and no parcelling will be permitted to bring larger projects, piece-meal within these limitations.

Article 31. Funds of the Corporation shall be deposited only in such banks as may be approved by the Board of Directors.

Article 32. Checks shall be used for all payments of the Corporation with the exception of Imprest funds from which emergency payments are to be made and as established from time to time and as authorized by the Controller.

Chapter Seven

Closing of Books

Article 33. The fiscal year of the Corporation shall start on January 1st and end on December 31st. The books of the Corporation shall be closed at the end of each calendar month and at the end of December, the latter represents the final annual closing of the Corporation's accounts. It is to be understood that the monthly closing shall involve only the taking off and proof of a trial balance and recordation of such proven results of operation and current status of the Corporation's finances and affairs.

Article 34. In addition to the closings aforementioned, there shall be two estimates of Cash Receipts and Disbursements made, one at the end of April and the other at the end of October each to forecast the period to the

next forecast.

Article 35. At the end of the fiscal year, the Managing Director shall prepare the following statements, and report same to the Chairman of the Board of Directors for transmittal and final approval by the Board.

1. Report on the year's Operations.
2. Balance Sheet.
3. Inventory of Corporation's Assets.
4. Profit and Loss Statement.

The foregoing statements upon the approval of the Board of Directors of the Corporation shall be printed in appropriate forms and submitted to the Ministry of Communications and the Executive Yuan.

Article 36. Net profits of the Corporation, if any, shall be distributed in the following order: (a) 10% of the profits shall remain in the earned surplus account, (b) Such other appropriations as may be resolved by the Board of Directors. (c) The balance shall be paid out as dividends on stock outstanding.

Should a loss be sustained at the end of the fiscal year, the Corporation may petition the National Treasury for a reimbursement or subsidy.

Chapter Eight

Miscellaneous

Article 37. The Corporation shall be registered at the Ministry of Communications and the Ministry of Economic Affairs.

Article 38. Additions to or amendments of the by-laws, rules and regulations of the Corporation shall be submitted to the Board of Directors for their approval.

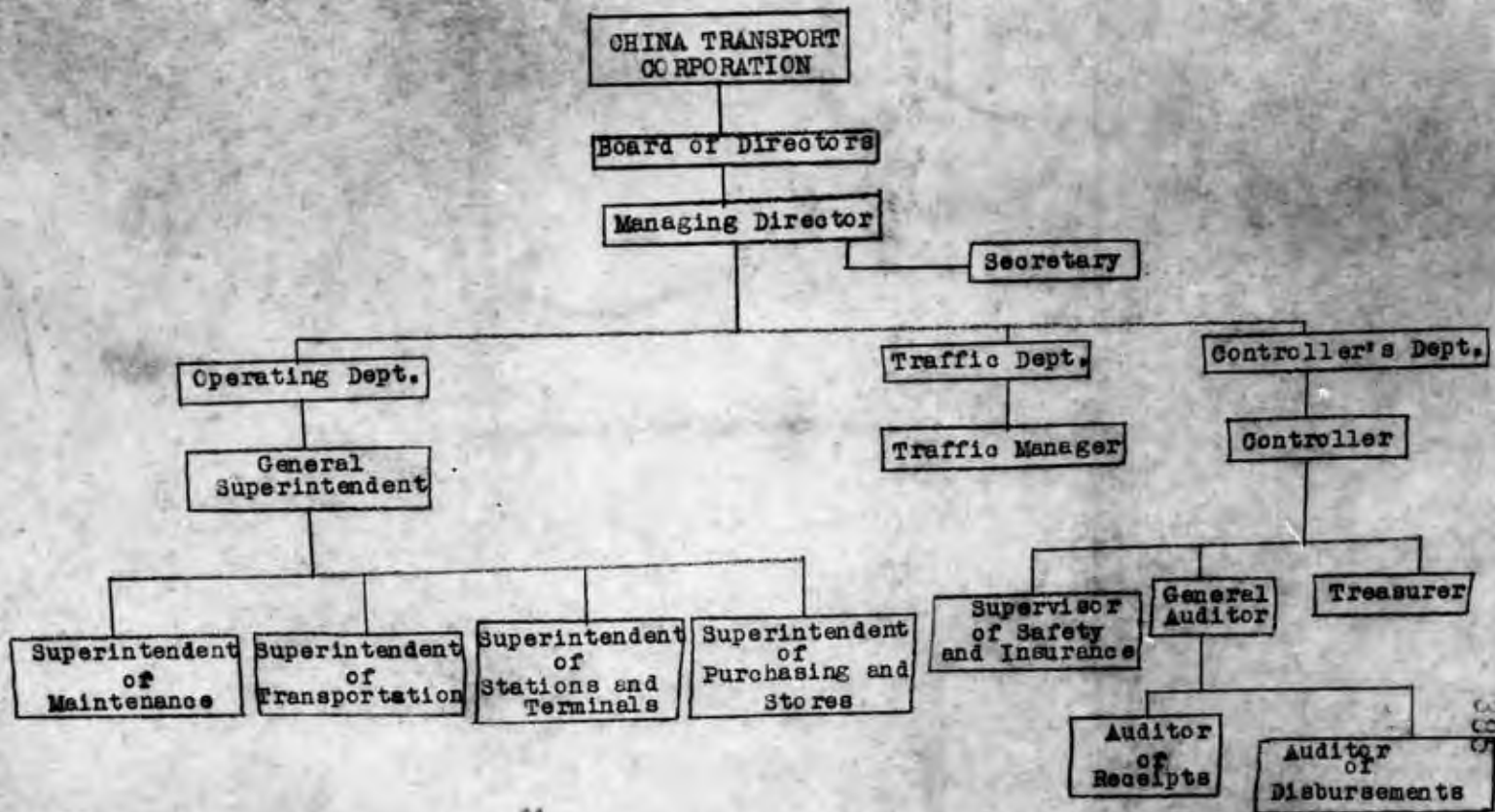
Article 39. These articles shall become effective as of the date of approval by the Ministry of Communications. Amendments thereto may be effected by resolution of the Board of Directors with the approval of the said Ministry.

Article 40. The provisions of the Chinese Company Law shall apply to all omissions as may be found in the present articles.

Chungking

Nov. 15, 1939

Organization Chart



Chungking
Nov. 16, 1939



LEO T. CROWLEY
CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

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December 5, 1939.

My dear Mr. Secretary:

Yesterday afternoon I was called to the White House for a conference with the President. We now have a mutual understanding regarding my future, namely, I have agreed to continue as Chairman of the Federal Deposit Insurance Corporation until the problems now confronting us are disposed of. I had intended discussing the matter with you prior to seeing the President but I did not have the opportunity.

With kindest regards, I am

Sincerely,

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

December 5, 1939.
9:17 a.m.

Gen. B. Parker: Very well, and you?

H.M.Jr: I haven't had the nerve to call you up for a long time.

P: Well, I don't know why you should say you need nerve.

H.M.Jr: Well -

P: But nevertheless I'm glad to hear your voice.

H.M.Jr: I felt that while editorially we had drifted a little bit apart.

P: Well, I don't know where, you drifted down to Texas the last I traced you. Did you have a good vacation?

H.M.Jr: Oh, wonderful. For six days I didn't listen to the radio and I didn't talk on the telephone, I relied entirely on the newspapers which were two or three days old.

P: Well then that's a real vacation, I took one this summer - by the way I pretty near crossed paths with you over there in the Baltic.

H.M.Jr: Really.

P: And what I did on my vacation was to read nothing.

H.M.Jr: Oh I can't get along without the newspapers.

P: Well, I - I did that, socially.

H.M.Jr: Mr. Parkerwell I'm glad, you're feeling well then?

P: Yes, I'm feeling very well thanks.

H.M.Jr: I gave out something yesterday in the papers in regard to munition contracts and I had a press conference, and I went pretty far talking about war profits. I would like to send you a transcript of my press conference, plus the formal announcement you see.

P: Yes.

H.M.Jr: I don't know how much you're interested in limiting profits of munitions. I'm very much interested. I went pretty far in what I said.

P: I'd like very much to have that.

H.M.Jr: As far as I know I think I'm the first official in the Government that has, well demonstrated in a practical way that we don't want people to make anything above the normal profit and that I personally don't, won't in any way go against the intent of Congress in the Vinson-Trammell Act, and if you read my press conference I think you'll see just how far I did go.

P: I'd like very much to have that.

H.M.Jr: Now, how can I get it to you?

P: Well, suppose you just - if you've got a messenger why don't you send it, I'm out home, I'm not at the office.

H.M.Jr: Supposing I send it out there with the messenger.

P: Yes, 1840 - 24th.

H.M.Jr: 1840 -

P: 24th Street.

H.M.Jr: 24th Street.

P: North West.

H.M.Jr: I'll send it out there, and as I say I don't know how you feel about it, but I think you'd be interested.

P: Well, I want to - I want to get into it. This particularly refers to the munitions.

H.M.Jr: Yes. Munition contracts you see.

P: Yes, well I -

H.M.Jr: Right off, and if a man wanted to he could be - oh give these fellows a break and I'm doing just the opposite, I'm holding very strictly to the law and as I say, I'm not going to let these fellows make one penny more, and if I had my way I'd let them make less.

P: Huhhuh.

H.M.Jr: And I think we've got - I mean I think the way, the

only way I know of, I didn't say this to keep us out of war is to keep the fellows from making excess profits out of munitions.

P: Yes. At least that's one of the ways. Yes.

H.M.Jr: Isn't that right?

P: I think so, that's been my idea. I think there's been - well I think Nye for example and two or three others went kind of cockeyed on the idea of not - of just confiscating all profit.

H.M.Jr: No, no. This permits a man -

P: This is ^{not} the same breed of cat that that was.

H.M.Jr: Well like all of these things, if you're unreasonable it falls by the wayside.

P: That's right. Of its own way.

H.M.Jr: If you're reasonable and these fellows are entitled to twelve per cent profit on aeroplanes and aeroplane parts, I think that's plenty.

P: Of course it is.

H.M.Jr: And there's a novel thing that I did was that this was the first contract we signed and I'm making it public and every contract from now on is going to be made public, and that's never been done before in the history of the country.

P: I'd very much like to have you send that out.

H.M.Jr: I mean that's the novel part about it, the publicity.

P: Yes. Now, Mr. Secretary here, whether - you made a little crack there about drifting editorially apart. On what - do what particular thing do you refer?

H.M.Jr: Well, you - let's get together for lunch or some evening, shall we?

P: Yes.

H.M.Jr: How's that?

- P: Oh that's all right. I just wondered whether they meant it.
- H.M.Jr: Well I just had a little feeling but maybe I'm wrong. But I'd love to sit down and talk to you.
- P: Well, that's very nice of you, and I'd love to renew acquaintance with you, sir. It's been quite a while since we've been together.
- H.M.Jr: Well, I'll pick the
- P: Well thank you very much and you'll send that out today then.
- H.M.Jr: O.K.
- P: O.K.

December 5, 1939.
11:17 a.m.

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H.M.Jr: - he is that I can say yes or no.

Jim Farley: All right. Well I won't be down there for a couple of days and I just wanted, I was talking to Bill and I just called to inquire if you're protecting my interests until I get back there.

H.M.Jr: I always do.

F: Well that's all right. I knew you did but I just wanted to check in with you.

H.M.Jr: Yes. What are your interests?

F: Well I haven't any.

H.M.Jr: (laughs)

F: All right Henry, I'll see you when I get down there, I just called you up to say hello, I didn't have a damned thing on my mind to be honest about it.

H.M.Jr: I can still give you pigs knuckles and sauerkraut if you'll eat them.

F: All right I'll eat it next week with you.

H.M.Jr: O.K.

F: Not this week but next week.

H.M.Jr: All right.

F: All right Henry, thanks.

H.M.Jr: Thank you.

F: Goodbye.

December 5, 1939.
12:17 p.m.

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H.M.Jr: Hello.

Operator: The Cuban Ambassador is with Mr. Welles and he'd like to call you back when he's free.

H.M.Jr: That's all right. Tell him that he can call me up at home.

O: All right.

H.M.Jr: I'm going home.

O: Right.

December 5, 1939.
3:22 p.m.

Traphagen: Hello Mr. Secretary.

H.M.Jr: This is Morgenthau.

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T: How are you sir?

H.M.Jr: I'm fine. How are you?

T: I'm fine thanks.

H.M.Jr: Mr. Traphagen, Mr. Jesse Jones and Mr. Welles are here with me.

T: Yes.

H.M.Jr: And some other gentlemen and we've been talking over how to go forward from here in connection with Colombia.

T: Yes.

H.M.Jr: And the gentlemen from Colombia is coming in here at 3:30 and before talking to him we wanted to tell you approximately what we decided amongst the three of us.

T: Yes.

H.M.Jr: And that is this. What we'd like to say is this. In the first place any negotiation that is going to be carried on we feel that you made an excellent impression when you came down here and we'd like you personally to do the negotiations for the bond holders protective committee.

T: You'd like to encourage me to do it.

H.M.Jr: Yes, very much. Individually.

T: Yes.

H.M.Jr: The thought that we had in mind was to say to the bond holders protective committee which means Mr. T and as far as we're concerned and to the representative of Colombia that we suggest that the two of you get together and see if you can't come to an agreement.

T: Yes.

H.M.Jr: Either one, if either one of you after seeing each other feel that you've come to an impasse you could come and see Mr. Welles, Mr. Jones and myself.

T: Yes.

H.M.Jr: We hope that that will not be necessary but if either one of you feel that you're too tough or not generous enough we are available as a sort of a court of appeal.

T: Fine.

H.M.Jr: But we'd like to leave the negotiation in the hands of this Jarmilo if that's the way you pronounce his name.

T: Mr. Jarmilo.

H.M.Jr: And Mr. Traphagen.

T: Yes.

H.M.Jr: And then we'd like both of you to keep us informed as to what progress or what lack of progress you make but put the thing in the hands of you two gentlemen.

T: All right. I told you, Mr. Secretary, that I would do anything I could to cooperate and I'll be very glad to do this if you want me to do it.

H.M.Jr: Well all three of us would very much like to have you do it individually.

T: All right.

H.M.Jr: Now -

T: I take it that I could talk with you from time to time about it.

H.M.Jr: You can talk - the three of us will be available at any time.

T: Yes.

H.M.Jr: You can talk to the three of us. We thought - anytime anything important comes up, if - you can either

telephone, I can pass it on or better yet, if you'd come down the three of us are available, we'd like to hear from you.

T: Very good.

H.M.Jr: We'd like to hear from you.

T: All right, sir, I - I'll take it on, do the best I can.

H.M.Jr: We hope that you and Mr. Jarmilo could start at once.

T: Fine. Now I wonder if he understands that I'm engaged up here, trying to run a bank, and it's pretty hard for me to get down to Washington too often. I'll be glad to come down there as often as I can, but it takes a whole day away from New York.

H.M.Jr: Well what would you like me to suggest to him?

T: Well I was wondering whether - I'd be very glad to come down in the first instance and meet him.

H.M.Jr: Yes.

T: If he - if we could carry the negotiations on in New York.

H.M.Jr: Yes.

T: From that point on. It'd be very much simpler for me.

H.M.Jr: Well I will tell him that you'll be coming down here - in a day or two?

T: I'll come down at - almost any time that suits him.

H.M.Jr: Well supposing I ask him, that we arrange for the first appointment.

T: Yes. Very good.

H.M.Jr: Now would you - shall we say Thursday?

T: Let me see - Thursday, yes. I could come down on Thursday, or I could come down on Friday. Thursday would be even better for me than Friday.

H.M.Jr: Which -
T: I could come either day that suits him.
H.M.Jr: Thursday or Friday.
T: Yes.
H.M.Jr: At the Colombian Embassy.
T: Yes, I could meet him at the Colombian Embassy.
H.M.Jr: Well I'll tell you what we'll do. He's coming in and I'll ask him. Did I understand Thursday would be a little bit better.
T: Thursday would be a little better for me but I can do it either day.
H.M.Jr: Well that's - and then after that I will tell him that if he could occasionally go up to New York, or be up there as much as possible, it would help you earn your salary as President of the bank.
T: All right. Fine.
H.M.Jr: Is that all right?
T: I don't think this negotiation is going to take very long as a matter of fact.
H.M.Jr: I don't see why, and you understand either side can appeal to us three.
T: Very good. I think that's a very good idea.
H.M.Jr: Do you like this idea?
T: I think it's all right. I think it's fine. I think, under the circumstances, that's a very wise way to handle it.
H.M.Jr: Fine, and we're putting our money on you.
T: Very good.
H.M.Jr: All right.
T: Right, sir. Nice to have heard from you again.
H.M.Jr: All right.
T: Goodbye.
H.M.Jr: Goodbye.

December 5, 1939.
4:20 p.m.

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H.M.Jr: Hello.

Operator: Mr. Edison. Go ahead.

H.M.Jr: Hello.

Edison: Hello Mr. Morgenthau.

H.M.Jr: How are you?

E: Well pretty good today.

H.M.Jr: All right.

E: Say, you remember we were talking at Cabinet the other day, about the President saying he was going to crack down on this arrangement that you made for closing on some of these expenditures that were made by private companies for claim facilities to make delivery dates.

H.M.Jr: Yes.

E: Well, I didn't get from you, from what you said whether that was all off or not. I -

H.M.Jr: No.

E: What?

H.M.Jr: No, and look if you're interested in this and got the time, why I'd like to have you sit down with me and we'll tell you just where we are and if you'd bring some fellow along why I think it's worth all the time - I'd be glad to give it all the time you want to give it.

E: Yes. Well I'll tell you, I would like to get it straightened out in my mind again. Of course that consolidated aircraft thing you know, that was a different proposition. That's where the Government was to advance the money to build these enlargements. That isn't what I'm talking about at all. Well now we have a specific case right here, I've been breaking my neck well, for a long time to try to get these small boats, you see, and we have a deal with the Electric Boat Company and they will have to spend about six hundred thousand dollars to fix that plant to be able to make these boats in quantities, see? And as I understand it, they've been over to the Treasury

and talked to some people over there and they say yes, we'll make an arrangement with you but we'll have to take about oh, two or three weeks or months to look it over.

H.M.Jr: Oh, no. Look bring anyone that you're interested and come over here, and we'll explain to you just what we can or cannot do.

E: Yes.

H.M.Jr: When do you want to come?

E: Well now, wait a minute. These gentlemen are here, wait until I get in touch with them. Well how late are you going to be there? Going to be there this afternoon or tomorrow?

H.M.Jr: No, we have - the tea to the Treasury is this afternoon.

E: Oh I see.

H.M.Jr: But tomorrow morning I can do it.

E: Tomorrow morning. Well now wait until I see how that strikes them.

H.M.Jr: Or tomorrow afternoon.

E: Well tomorrow morning would be all right.

H.M.Jr: How's about eleven o'clock?

E: You're not tied up with some picture making are you, on some kind of -

H.M.Jr: No.

E: Plaque awards.

H.M.Jr: No. No the President said he was going to handle that himself. He wanted to do that.

E: Well, eleven o'clock.

H.M.Jr: Eleven o'clock.

E: That'll be swell.

H.M.Jr: Will you bring your people with you?
E: Yes. All right fine.
H.M.Jr: And I'll have the right people here that's on the same thing.
E: Yes. All right. Well this is a specific case.
H.M.Jr: All right, you -
E: Perhaps if we talk about that why we'll clear up the whole subject, don't you?
H.M.Jr: Yes, which case is it?
E: This electric boat.
H.M.Jr: Electric boat.
E: On the small boats, not submarines, but on small boats.
H.M.Jr: I know. Eleven o'clock tomorrow.
E: All right, fine.
H.M.Jr: Thank you.
E: Goodbye.

GROUP MEETING

December 5, 1939.
9:30 a.m.

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

H.M.Jr: Herbert, how is your cold?

Gaston: Oh, it is getting better.

H.M.Jr: Are you going to be able to shake hands?

Gaston: You bet, thank you.

H.M.Jr: What else?

Gaston: We grabbed this yawl, the Lekala, again.

H.M.Jr: I read it last night.

Foley: Cairns said so.

Gaston: They are going to ask them to give a bond, something that Justice should have done in the first place.

On the other thing, Justice is waiting for some assurances from us by which they could go to the Department of State and ask them to take the matter up with the French Government to find out whether they were willing to give assurance that these vessels are not to be used for any military purpose, but they would like clearance from us before doing that.

H.M.Jr: To take it up with State?

Gaston: Yes. They have decided that the correct procedure

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is first to have the State Department take up the matter with the French Government officially and ask them whether these vessels are to be used for any military purpose. If the French Government gives those assurances, then Justice considers that the matter will be ended, but if they will not give such assurance, then they would proceed with an investigation through the F.B.I.

H.M.Jr: Well, let me explain to you why that seemingly is unnecessary. Mr. Hull told me two things, number one, that I could say that he and I wanted an opinion from Justice. That is number one. Number two, when they got the opinion, that he felt it was up to them to inform the French Embassy here and that he would see that that was done. Now, I told that to Miss - either to Miss Bungardner or through - what is his name - that we wanted that, on that basis, that Mr. Hull and I wanted to be advised by Justice. It seems to me that all this Alphonse and Gaston stuff is ridiculous. Let them go ahead and do business; let them inform Mr. Hull, and Mr. Hull knows what to do. Why don't they just send over a copy of the opinion to Mr. Hull? He has asked for it through me.

Gaston: Yes.

H.M.Jr: I said, "Can I say that you and I want this," and he said, "Yes."

Gaston: They would take it up with the French after getting the opinion?

H.M.Jr: Yes, if they haven't already done so.

Foley: Bob Jackson signed that opinion last night when he got back from court and I sent the letter out. I also sent out the mimeographed drafts of the Giannini stuff to the lawyers.

H.M.Jr: Good.

Foley: I sent out the copy of the letter to Sam Clark to Knollenberg and Greenbaum.

Bob Jackson's office has asked Phil Wenchel if he would like to argue a case that we sent over to Justice in the Supreme Court. He would sort of like to do it, I think.

H.M.Jr: What case is it?

Foley: It is not an outstanding case. It is a case where we asked for a certiorari and they didn't think it was necessary, but because we insisted, they did and the Court granted certiorari - it involves setting aside of a closing agreement where there is some fraud because all the facts weren't presented in the first instance.

H.M.Jr: I will leave it with you.

Foley: I think I will let him do it.

H.M.Jr: Last night I did something and cautious, conservative Harry White is worried that possibly I broke the law. He is very much disturbed, so now that I have done it I will ask you about it and Dr. Viner and Dr. Riefler can take a look at it too. The Swedish Minister came in with rather a vague telegram asking whether we would buy Finnish gold in Stockholm and I worked out a new formula in which I said yes, we would buy Finnish gold in Stockholm and pay spot cash for it, provided that: one, the Finns would ship it on the first available steamer from Bergen, two, pay all expenses and insurance, and three, that the Swedes would set aside, segregate an equal amount of their gold in New York pending the arrival of the Finnish gold. I walked across the street with a memorandum and the President initialed it and we let it go.

Cochran, who takes chances, went along with me, but Harry, who is so cautious, always looking at things - why we can't help the Chinese and things like that, is worried about it.

Foley: What is he worried about?

H.M.Jr: I don't know.

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White: I merely said that I thought the lawyers ought to pass on it first as a general principle. You wouldn't disagree with that, would you?

Foley: You have got something there.

White: I thought you would agree with me on point one.

Foley: Go on.

White: Point two is not so good.

H.M.Jr: What did he say, Ed?

Foley: He said his second point isn't so good.

White: Well, there was a formation of another government prior to the purchase and if, as it is possible, at any rate, they subsequently have control, I don't know whether there might be some question of a suit involved. It is the reverse of the Spanish case.

Gaston: We didn't recognize that government, I think.

White: Well, is that adequate....

H.M.Jr: I was just amazed, but Cochran, will you give a copy of the memorandum to those two gentlemen on the mourners' seat and one to Mr. White and one to the attorneys?

Cochran: Yes, sir.

H.M.Jr: I think it is very interesting, because the Swedes may not go along. At least it gives the Finns spot cash for their gold. There is no risk on our part.

Gaston: I was called up by Harry Anselinger who told me they got a request from the Red Cross for a large amount of narcotics for Finland and they are going through.

H.M.Jr: This memorandum I gave the President, the President says, "I have got to legally take that money from the Finns." Is that right?

Bell: That is right.

H.M.Jr: And he sort of felt you were throwing it on him. What he is going to say is that he is directing me to segregate those funds and then he is going to ask Congress to appropriate an equal amount to give to the Finnish Red Cross, but I don't know why he got a great kick out of the fact. He says, "I have got no choice, I have to accept it," but he told me to segregate it. I don't know why he seemed to think that was so funny.

Bell: I don't know either.

H.M.Jr: But the chances are he will do it today. You (Foley) were in on that, weren't you?

Bell: He wasn't in on the memorandum.

H.M.Jr: Now, this is a good answer to White. Here was a question, we had the lawyers in and they said, "No, if you want to do it this way you had better leave the lawyers out." There was some question, so they just walked out on me.

Foley: I don't think you needed any lawyers in that.

Bell: Not seriously.

Foley: Not in that one, anyway.

H.M.Jr: I will help you out, inasmuch as the instructions of the President are that he is going to do it.

Bell: Is he going to do it before he gets official confirmation?

H.M.Jr: He read the letter. He is kind of all worked up to do it. He said, "Leave it to me and I will take care of it."

Bell: We ought to get those - that information this week because they usually come around the sixth or seventh of the month.

H.M.Jr: Knowing how worked up he is over this Finnish

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invasion, I think you will see he will do it this morning.

Cochran: I have a chart showing the silver purchases.

H.M.Jr: Have you showed it to those two gentlemen?

Cochran: No, sir.

H.M.Jr: Will you please?

Cochran: Yes.

H.M.Jr: Viner?

Viner: Nothing.

H.M.Jr: Riefler?

Riefler: No.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Basil?

Harris: Nothing.

H.M.Jr: Gene?

Duffield: I have got a couple of matters I would like to see you about today sometime.

H.M.Jr: Gene, stay after this meeting.

Harry?

White: Nothing.

H.M.Jr: Are you going to get that information that the President wants?

White: Yes, we are getting it. The Department of Commerce is already getting most of what we want so it won't take much time, as far as current material is concerned. The past material will

take about two or three days.

H.M.Jr: Harold? Harold, I don't care what the excuse is, I don't want women to work the hours that they did in Procurement.

Graves: Yes, I told them.

H.M.Jr: I don't care what the circumstances are and I wish you would explain it to Norman Thompson and see that that doesn't happen in any other part of the Treasury. I don't care what the excuse is, I just don't want it to happen again. It is the old argument, "Well, if the woman wants to work ten or twelve hours, that is her responsibility." I don't agree with that. The fact that they are willing to work - the poor things are told, "Are you willing to work all through Saturday night - or else."

Graves: It wasn't exactly that way. They called for volunteers.

H.M.Jr: Well, I still....

Graves: Yes, I get your point.

H.M.Jr: I wish you would explain it to Thompson. I don't want it to happen to any part of the Treasury. I don't even want them to call for volunteers to have women work right straight through. With all the unemployment, it is a most ridiculous thing that we have people working overtime and at the same time we have unemployment.

Bell: It is a little unfortunate in certain spots, Mr. Secretary, where we need experienced people. We can't take on people and work them for a week or two weeks.

H.M.Jr: I went all through that when I first came here.

Bell: We have got an annual report to get to Congress about the tenth of January and we don't get our material from the field until about the fifth. There are not so many women working, but the men in charge of it. We will have to go to it and

we can't get inexperienced people to do it.

H.M.Jr: I would rather have the report late than not have the report.

Graves: Excuse me....

H.M.Jr: You and I worked late, that is different, but they claim that these women worked 80 hours.

Graves: Nobody worked that long. As I understand it, your suggestion applies only to the women. There is no objection to men....

H.M.Jr: Only to the women.

Viner: Does that apply to Mrs. Klotz?

Klotz: Thank you, Doctor.

H.M.Jr: Yes.

Bell: The Federal sold $4\frac{1}{2}$ million of guaranteed obligations yesterday. It is a sort of a switch in the market. One bank wanted these particular issues and they wanted to sell the same amount of the '44 notes, so they let them go. It had no effect on the market.

If we are going to consider refunding next week, I think they ought to be out of the market after today because the report would come out next week just during the time when our refunding would be open. They want that information and they are willing to get out if you say you are going to consider it.

Here is a letter to Mr. Farley telling him you are going to consider the sale of bonds.

Thompson: The House Appropriations Committee is going to have hearings next Monday on the Treasury budget.

H.M.Jr: Monday is always a bad day.

Thompson: I am sure they can set another day. It is only tentative so far.

H.M.Jr: Either Tuesday or Wednesday, but I would like to take a look at the statement I am going to read.

Thompson: Yes.

H.M.Jr: I would say either Tuesday or Wednesday is clear. Who works on that?

Thompson: Mr. Schoeneman's Budget Committee.

H.M.Jr: Before it comes to me....

Thompson: Duffield will go over it.

H.M.Jr: Any good snappy stories in it?

Thompson: I don't think so this year.

Bell: We will have to work overtime in order to get that out.

December 5, 1939

MEMORANDUM

RE: COLOMBIA

Meeting in Secretary's Office at 3 o'clock
December 5, between the Secretary, Mr. Welles and
Mr. Jones — Pierson, Cochran, White, Riefler and
Cotton also present.

The Secretary expressed the view that no Government department or agency should negotiate directly with the Colombian representatives with respect to a debt adjustment, especially any lending agency of the Government within the province of which the question of future credits might fall. The objectives should be to establish a pattern for similar situations in the future, even if it might not be ideal as applied to the particular case of Colombia now. The Secretary suggested that, the way having been prepared with the Council, the negotiations should be conducted directly between Mr. Traphagen and Mr. Jamarillo, the committee consisting of Mr. Welles, Mr. Jones and himself being informed of the progress of the talks and both sides having a right to bring their cases before the committee as a court of appeal should either consider that the other side is being unreasonable. Mr. Jones expressed agreement with this suggestion. He said he supposed it meant that no new loan would be made to Colombia until there was an understanding on the debt, which was confirmed. He also said that, in his opinion, money could not be secured for the Export-Import Bank from Congress unless a settlement for Colombia was arrived at which would seem reasonable to the congressional committees concerned.

Mr. Welles expressed agreement with the procedure and suggested that, in view of the unfortunate past history of negotiations between the Colombians and the Council, the point should be stressed that Mr. Traphagen should undertake the negotiations.

The Secretary called Mr. Traphagen on the telephone, outlined the suggested procedure to him, and asked him whether he individually would undertake negotiations with Dr. Jamarillo. Mr. Traphagen approved the suggestion and agreed to undertake negotiations in person. It was agreed that he would come to Washington Thursday or Friday to meet the Colombians, he having expressed the hope that subsequent talks might take place in New York.

Dr. Jamarillo joined the meeting.

The Secretary outlined the suggested procedure for direct negotiations between Dr. Jamarillo and Mr. Traphagen. Dr. Jamarillo indicated

that he would wish to have the Colombian Ambassador in Washington in on his conversation with Mr. Traphagen. He said he wished to make his position clear, and outlined it as follows:

At the request of the President of Colombia, at the Panama Conference he took up the question of financial cooperation with the United States delegation. According to him Dr. Feis indicated that at the present time "modest" cooperation would be forthcoming and that next year when the Export-Import Bank was in funds larger cooperation might be possible. He said that Feis indicated that a debt settlement was not a necessary condition of such preliminary cooperation but would be necessary for larger cooperation. Dr. Jamarillo retailed Dr. Feis' statement to the President of Colombia but at that time expressed his own frank opinion that Colombia should not ask for new credits without a debt settlement. The President asked him to come to Washington to learn the views of the United States Government in these matters with a view to communicating such views to the President so that the President could give special instructions to the Colombian Embassy in Washington presumably with regard to the debt question. Dr. Jamarillo said that in any event he would be glad to see Mr. Traphagen next Thursday and would wish to have the Colombian Ambassador in on the conversation. It was agreed that Mr. Cotton should bring Mr. Traphagen to the Colombian Embassy at 11:00 next Thursday morning to introduce him.

At the conclusion of the meeting, Mr. Welles and Mr. Jones remained. The question of a loan to Finland was discussed and it developed that the President was putting pressure on Mr. Jones to go forward in this matter. The Secretary explained the proposal recently agreed upon and made to the Finns with respect to purchase of Finnish gold by this Government. The Secretary also took advantage of this discussion to express to Mr. Jones the view that not only Finland but China was in need of credits to resist Russian penetration and that they had been asking for consideration of their request for credits for some time.

Mr. Cotton called Mr. Traphagen to confirm the understanding as to the meeting between Mr. Traphagen and Dr. Jamarillo at the Colombian Embassy in Washington at 11:00 in the morning next Thursday and to advance the suggestion that he, Mr. Cotton, should introduce Mr. Traphagen, which was accepted.

JPC, Jr.:EJ

J.P.C.P.

December 5, 1939

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Crowley told me today that the President had told him that unless the foreign situation got worse, he would not run again; that he thought Hull was sufficiently liberal for him to back him and that the ticket should be Hull and Bob Jackson, or Hull and Bill Douglas. And he said, You know I am my own Secretary of State now and I would want to continue to work for world peace and, therefore, I would be willing to take the post of Secretary of State.

Pls file as ?
1215

DEPARTMENT OF STATE
DIVISION OF FAR EASTERN AFFAIRS

12/7

Mr. Cochran -

This is the
telegram I phoned
you about this
afternoon -

J. C. Penfield

(CONFIDENTIAL)

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PARAPHRASE

A confidential telegram (no. 2907) of December 5, 1939, from the American Ambassador at Paris reads substantially as follows:

On December 4 the demobilization of Meaux (Colonel of Engineers) from the French army was arranged by Mandel at the urgent request of T. V. Soong. Meaux, who has been instructed at the instance of Mandel to depart immediately for Indochina, has an intimate knowledge of Indochinese topography and is an expert road builder. He is to take personal charge of the completion of the construction of the highway paralleling the railway to Laokay, which is now completed to a point about half way between Laokay and Hanoi. The above information was obtained from a reliable source close to Mandel.

893.154/275

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

Date 10/6/39

TO:

The Secretary

Room _____

*To note final
paragraph - Page 3.*

H. M. R.

From: MR. COCHRAN

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 5, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today, although the volume of sterling transactions was larger than that of yesterday. In New York, sterling opened at 3.89-7/8. During the early part of the morning, the Federal Reserve Bank disposed of about £53,000, representing the unexecuted portion of the order received from the Bank of Latvia yesterday. Around mid-morning, sterling reached the low of 3.89-1/4. It recovered during the afternoon to 3.90. Toward the close, some moderate commercial buying appeared, and the rate strengthened further to 3.90-3/8. It closed at that level.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £633,000, from the following sources:

By commercial concerns.....	£ 142,000
By foreign banks (Europe, Far East and South America)...	£ 438,000
By Federal Reserve Bank of New York (for Latvia).....	£ 53,000
Total.....	£ 633,000

Purchases of spot sterling amounted to £492,000, as indicated below:

By commercial concerns.....	£ 326,000
By foreign banks (Europe and Far East).....	£ 166,000
Total.....	£ 492,000

Cotton bills totaling £196,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 158,000 by the Bank of the Manhattan
£ 27,000 by the Guaranty Trust Company
£ 8,000 by the Chase National Bank
£ 3,000 by the National City Bank
£ 196,000 Total

The other important currencies closed as follows:

French francs	.0221-3/8
Guilders	.5309
Swiss francs	.2242
Belgas	.1652
Canadian dollar	13% discount

The rate for the Cuban peso improved to 11-3/8% discount, which is the highest price for that currency since November 1.

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

\$10,000,000 from the Bank of France
5,900,000 from the Bank of Sweden
\$15,900,000 Total

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

\$ 9,500,000 representing two shipments from Japan by the Yokohama Specie Bank, Kobe, consigned to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
630,000 from India, shipped by National Bank of India, consigned to the Agent of the Guaranty Trust Company of New York in San Francisco, for sale to the U. S. Mint at San Francisco.
563,000 from England, shipped by Samuel Montagu and Company for account of the Amsterdam Bank, Amsterdam, consigned to Bank of Manhattan for sale to the U. S. Assay Office at New York.
20,000 from England, shipped by National City Bank, London, consigned to the National City Bank, New York, for sale to the U. S. Assay Office at New York.
14,000 from England, shipped by Sharps & Wilkins, London, consigned to the Guaranty Trust Company of New York, for sale to the U. S. Assay Office at New York.
\$10,727,000 Total

We received from the State Department a cable sent by the American Consul at Calcutta stating that invoices were certified for the following gold shipments:

\$ 814,000 representing 3 shipments by the Australian Bank to Bank of California, San Francisco.
675,000 shipped by the French Bank to the French-American Banking Corporation of New York.
2,352,000 shipped by the National City Bank, Bombay, to National City Bank, New York.
\$ 3,841,000 Total

The shipments consigned to San Francisco will be sold to the U. S. Mint in that city, and those sent to New York will be sold to the U. S. Assay Office there.

The U. S. equivalents of the London spot and forward silver prices were 41.08¢ and 40.93¢, respectively. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was unchanged at 35¢.

We purchased a total of 658,000 ounces of silver, of which five purchases amounting to 450,000 ounces were made in New York. The remaining 208,000 ounces were purchased through the Crocker First National Bank in San Francisco.

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The Bombay silver market reopened today with the silver price quoted at 45.04¢ as compared to 44.48¢ on December 1st. It was reported by a Reuter's dispatch from Bombay that a large amount of business was transacted at 45.04¢ for Calcutta and up-country account. Later the price declined to 43.55¢.

Mr. Knoke telephoned me late yesterday afternoon in regard to Russian balances. He stated that as of yesterday morning, the State Bank of Russia had with the Chase Bank \$13,000,000, including \$11,000,000 in the current account and \$2,000,000 set aside for confirmed credits. Of the \$11,000,000, \$4,700,000 constituted the proceeds of a gold shipment en route from Scandinavia to New York against which the Chase Bank had made this advance. The Chase Bank has recently opened unconfirmed credits for \$3,000,000, mostly for copper to be shipped by way of Vladivostok. This will be paid for out of the \$11,000,000. The Amtorg balance of the Chase Bank yesterday was \$1,500,000. Since Mr. Knoke last spoke to me on November 28 in regard to Russian balances, a payment of \$4,200,000 has been made by the State Bank of Russia to the Amtorg. During the same period the State Bank of Russia has received credits of \$10,700,000, of which the advance against gold accounted for \$4,700,000. The Rotterdam Bank transferred \$5,000,000 from its account to the State Bank of Russia and the Enskilda Bank of Stockholm transferred \$800,000 to the account of the State Bank of Russia.

B.M.A.

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