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September 13, 1939

My dear Mr. Attorney General:

Section 3 of the joint resolution of Congress, approved May 1, 1937, provides that whenever the President shall have issued a proclamation under authority of section 1 thereof it shall be unlawful for any person within the United States to engage in certain transactions with governments of belligerent states, political subdivisions thereof, or persons acting for or on behalf of the governments of such states. The President's Proclamations of September 5, September 8, and September 10, 1939, issued under the authority of section 1 of such Act, made applicable the provisions of section 3 of such Act to the countries named in such proclamations.

On September 6, 1939, the President issued a regulation concerning credits to belligerents, which was amended on September 11, 1939. Copies of such regulation and amendment are attached. You will note that by such regulation the President exempted from the operation of section 3 of the Act "ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions".

The Secretary of the Treasury is charged with the administration of such regulation. In connection with such administration the following question has been raised:

- (a) Whether foreign branches of American banks are "persons" within the United States" within the meaning of section 3(a) of such Act; (b) whether such branches, as part of their usual business of handling funds deposited in such branches, are permitted under such Act to buy and sell obligations of the governments of belligerent states:
1. issued on or before the date of the proclamation under section 1 of the Act naming the state as a belligerent,
 2. issued after the date of such proclamation.

It would appear to be necessary that the applicability to the same facts of the Act of April 13, 1914, forbidding financial transactions with foreign governments in default on their obligations to the United States also be determined. In this connection it may be assumed that the government in question is "in default" within the provisions of such Act, and the obligations in question were issued (a) on or before the effective date of such Act as applied to the defaulting government in question, (b) after such effective date. An examination of your opinions rendered to the Secretary of State with respect to such Act, and of your opinion of April 19, 1939, in which you discussed the applicability of such Act and of section 3 of the Neutrality Act to the loan referred to therein, would indicate that such question has not previously been raised with you.

Your opinion on the question herein indicated is necessary in the administration of the regulation concerning credits to belligerents, and such opinion is respectfully requested.

Very truly yours,

/s/ Henry Morgenthau, Jr.
Secretary of the Treasury.

The Honorable,

The Attorney General of the United States.

Enclosures

JMP:ldh 9-12-39

*Revised
with Bill
Sept. 11*



TREASURY DEPARTMENT
WASHINGTON

September 13, 1939

Strategic and Critical Materials

Under the Act approved June 7, 1939, the Secretaries of War, Navy and Interior, acting jointly through the agency of the Army and Navy Munitions Board, are authorized and directed to determine which materials are strategic and critical and to determine the quality and quantities of such materials which shall be purchased within the amount of the appropriations authorized by that Act. In determining the materials which are strategic and critical and the quality and quantities to be purchased, the Secretaries of State, Treasury and Commerce are required to designate representatives to cooperate with the first three Secretaries named.

Whenever the Secretaries of War and Navy determine that the domestic production and supply of any of these materials is insufficient to meet the industrial, military and naval needs of the country, they shall direct the Secretary of the Treasury, through the Procurement Division, to make purchases of such materials in accordance with specifications prepared by that Division and approved by the Secretaries of War and Navy.

To make the purchases under this Act and provide for their transportation, maintenance, rotation and storage, the Act authorizes appropriations of \$100,000,000 for the period from June 30, 1939 to

- 2 -

June 30, 1943. There is no limit placed on the amount to be expended or appropriated for any particular fiscal year. The Deficiency Appropriation Act of August 9, 1939, appropriated for the purposes of this Act the sum of \$10,000,000 for the fiscal year 1940, which sum is available until expended.

In discussing the matter with the Director of the Budget and the Director of the Procurement Division, we all felt that the President could not obligate the Government to purchase materials at a cost in excess of \$10,000,000, the amount appropriated, but we could see no objection to the Procurement Division entering into contracts to purchase up to this amount ~~during this fiscal year~~, with a provision in the contracts giving the Procurement Division an option to purchase additional amounts of these materials, subject, however, to appropriations being made by Congress.

In view of the fact that the Procurement Division is contemplating asking for bids in step-up amounts the aggregate of which will equal approximately \$10,000,000, all or any part of which could be accepted as it deems advisable, I believe that the better procedure would be for it to extend these bids on the same basis to \$20,000,000 worth of these materials; then, if there is a special session of Congress, submit immediately an estimate for an additional \$10,000,000 which should be available by the time the Procurement Division is ready to enter into contracts for the

- 3 -

purchase of this material (about November 1). If the total of \$20,000,000 is then available, the Procurement Division can enter into contracts at that time on the basis of the bids received without asking for new bids.

Captain Collins feels that this is the better way to handle the matter. If we handle it as first suggested above, namely, on the basis of an optional provision, he feels that we will not get any bids.

awb

5A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 13, 1939

~~ST~~

TO Secretary Morgenthau
FROM Mr. Foley

A question has been raised as to whether the continuance of the monthly arrangements between this country and Canada for the purchase of silver constitutes an unneutral act in view of the war between Canada and Germany and the President's Proclamation of September 10, 1939, making applicable to Canada the provisions of section 3 of the Neutrality Act of May 1, 1937, prohibiting financial transactions with belligerents.

A. Neutrality Act.

As indicated in the General Counsel's memorandum to you, dated September 3, 1937, with respect to the application of the Neutrality Act to China, Japan, or any other country, the prohibition of financial transactions with belligerents does not apply to the United States Government because it was not mentioned in the Neutrality Act and the sovereign is not bound by legislation unless specifically named therein. This conclusion was also reached by the Attorney General in his opinion to you, dated April 19, 1939, relating to loans by R. F. C. Moreover, even if the provisions of section 3 of the Neutrality Act were applicable to the United States Government the purchase of silver from Canada would not appear to be a violation of such provisions. The prohibition in section 3 extends to purchases, sales, or exchanges of "bonds, securities, or other obligations" of governments of belligerent states and to making loans or extending credit to any such governments. It seems clear that the purchase of silver from a foreign government is not a purchase of an obligation of the foreign government and that, at least insofar as payment is made only after the silver becomes the property of the United States, it cannot be regarded as making a loan or extending credit to the foreign government.

B. International Law of Neutrality.

As stated in the General Counsel's memorandum referred to above there appear to be no clear precedents one way or the other on the question of whether it would be an unneutral act under international law for the Treasury to buy gold or silver from a belligerent government, the purpose

of that government being known to be to acquire dollar credits with which to pay for war materials. In that memorandum it was concluded that the Treasury could buy gold or silver from a belligerent government or decline to do so, depending on how the broad questions of policy involved were determined. In view of the fact that our purchase of silver is a part of our domestic monetary policy, that purchases of silver were initiated in peace times, and that if we did not buy the silver Canada could sell it for about an equal price on the world market I am of the view that to continue the arrangement with Canada would not violate international law.

E. H. F. H.

NC

GRAY

PARIS

Dated September 13, 1939

Rec'd 9:30 a.m.

Secretary of State

Washington

1934, September 13, noon.

FOR THE TREASURY.

The Secretary's statement concerning continuance in
force of the Tripartite accord and ^{contemplated} continuance of normal
short term commercial credits has been received here
with great appreciation in official circles and has been
carried prominently in the press. We heard a full account
of it contained in the French news broadcast in German
last evening. (END SECTION ONE)

BULLITT

DDM

7

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1934 OF
SEPTEMBER 13, 1939, FROM THE AMERICAN EMBASSY, PARIS

The new Foreign Exchange Office is naturally still handicapped by insufficient personnel and by lack of precedents to guide it, and therefore it is still feeling its way. However, there are indications that the measures for exchange control will be interpreted by that Office in a liberal and flexible spirit, and that the Office will soon be functioning normally. In the meanwhile, both foreign banks and "approved" French institutions are piling up some backlog of would be and presumably legitimate purchases of foreign exchange for clients. However, these establishments are continuing to accept foreign currencies, turning the total over to the Bank of France at the end of the day - such transactions naturally being allowed even though they are not strictly in accordance with the regulations which have been issued.

END SECTION TWO.

BULLITT.

EA:LWW

SEP 13 1939

Dear Mr. Eccles:

Enclosed herewith for your information is a copy of a letter dated September 12, 1939 sent to George Harrison, President, Federal Reserve Bank of New York, relative to the functions of the Treasury Department under section 3 of the Neutrality Act and the regulations of September 6 and 11, 1939 issued by the President thereunder. Also enclosed are copies of the enclosures referred to in such letter. Similar letters were sent to the Presidents of the other Federal Reserve banks.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Harrison S. Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Enclosures

JWP:ldh 9-13-39

9/12/39

Dear Mr. Harrison:

Enclosed are copies of the President's Proclamations of September 5, 8 and 10, 1939, issued under authority of section 1 of the Neutrality Act and copies of the Regulations of September 6 and 11, 1939, by which the President exempted from the operation of section 3 of the Neutrality Act "ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions". Such Regulations also authorize the Secretary of the Treasury "to administer the provisions of this regulation and to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out such provisions".

The Secretary of the Treasury has formed an advisory committee to consult with the Treasury Department relative to this matter. Representatives of the Treasury, State and Commerce Departments have been designated to serve on such committee.

The Committee has recommended to the Secretary of the Treasury that he issue a press statement along the lines indicated in the enclosed draft.

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If the course indicated in the enclosed press statement is followed the Federal Reserve banks, before forwarding to the Treasury any doubtful questions for decision, should obtain any additional information necessary for an adequate consideration of the question. The Federal Reserve banks will be furnished for their guidance with copies of any decisions on these questions rendered by the Treasury Department.

It will be appreciated if you will advise this Department not later than Thursday, September 14, 1939, of any comments or suggestions which you may have concerning the foregoing.

Very truly yours,

(s) H. Morgenthau, Jr.
Secretary of the Treasury.

George Harrison, President,
Federal Reserve Bank of New York,
New York, N. Y.

Enclosures

BS:mjb
9/12/39

THE NATIONAL ARCHIVES
LITTEA SCRIPTA MANET
OF THE UNITED STATES
1934

FEDERAL REGISTER

VOLUME 1 NUMBER 172

Washington, Thursday, September 7, 1939

The President

REPORT OF ARMS, AMMUNITION, AND IMPLEMENTS OF WAR TO FRANCE, GERMANY, POLAND, AND THE UNITED KINGDOM, INDIA, AUSTRALIA AND NEW ZEALAND

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS section 1 of the joint resolution of Congress approved May 1, 1937, provides in part as follows:

"Whenever the President shall find that there exists a state of war between, or among, two or more foreign states, he shall thereafter be unlawful to export, or attempt to export, or cause to be exported, arms, ammunition, or implements of war from any place in the United States to any belligerent state named in such proclamation, or to any neutral state for transshipment to, or for the use of, any such belligerent state."

AND WHEREAS it is further provided by section 1 of the said joint resolution that

"The President shall, from time to time by proclamation, definitely enumerate the arms, ammunition, and implements of war, the export of which is prohibited by this section. The arms, ammunition, and implements of war so enumerated shall include those enumerated in the President's proclamation numbered 2163, of April 10, 1938, but shall not include raw materials or any other articles or materials not of the same general character as those enumerated in the said proclamation, and in the Convention for the Supervision of the International Trade in Arms and Ammunition and in Implements of War, signed at Geneva June 17, 1925."

AND WHEREAS it is further provided by section 1 of the said joint resolution that

"Whoever, in violation of any of the provisions of this Act, shall export, or

attempt to export, or cause to be exported, arms, ammunition, or implements of war from the United States shall be fined not more than \$10,000 or imprisoned not more than five years, or both, and the property, vessel, or vehicle containing the same shall be subject to the provisions of sections 1 to 8, inclusive, title 6, chapter 30, of the Act approved June 15, 1917 (40 Stat. 223-225; U.S.C., 1934 ed., title 22, secs. 238-245)."

AND WHEREAS it is further provided by section 1 of the said joint resolution that

"In the case of the forfeiture of any arms, ammunition, or implements of war by reason of a violation of this Act, no public or private sale shall be required; but such arms, ammunition, or implements of war shall be delivered to the Secretary of War for such use or disposal (hereof as shall be approved by the President of the United States)."

AND WHEREAS it is further provided by section 11 of the said joint resolution that

"The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such officer or officers, or agency or agencies, as he shall direct."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred on me by the said joint resolution, do hereby proclaim that a state of war unhappily exists between Germany and France; Poland; and the United Kingdom, India, Australia and New Zealand, and I do hereby admonish all citizens of the United States, or any of its possessions, and all persons residing or being within the territory or jurisdiction of the United States, or its possessions, to abstain from every violation of the provisions of the joint resolution above set forth, hereby made effective and applica-

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FEDERAL REGISTER

Published by the Division of the Federal Register, Department of Commerce, pursuant to the authority conferred by the Federal Register Act, approved July 27, 1933, (48 Stat. 1965), and the various provisions of Executive Order No. 11811, approved April 15, 1936, and the Administrative Committee, with the approval of the President.

Proposed by the Division of the Federal Register, Department of Commerce, pursuant to the authority conferred by the Federal Register Act, approved July 27, 1933, (48 Stat. 1965), and the various provisions of Executive Order No. 11811, approved April 15, 1936, and the Administrative Committee, with the approval of the President.

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be considered arms, ammunition, and implements of war for the purposes of section 3 of the said joint resolution of Congress:

Category I

- (1) Rifles and carbines using ammunition in excess of caliber .22, and barrels for these weapons;
- (2) Machine guns, automatic or auto-loading rifles, and machine pistols using ammunition in excess of caliber .22, and barrels for these weapons;
- (3) Guns, howitzers, and mortars of all calibers, their magazines and barrels;
- (4) Ammunition in excess of caliber .22 for the arms enumerated under (1) and (2) above, and cartridge cases or bullets for such ammunition; filled and unfilled projectiles for the arms enumerated under (3) above;
- (5) Grenades, bombs, torpedoes, mines and depth charges, filled or unfilled, and apparatus for their use or discharge;
- (6) Tanks, military armored vehicles, and armored trains.

Category II

Vessels of war of all kinds, including aircraft carriers and submarines, and armor plate for such vessels.

Category III

- (1) Aircraft, unassembled, assembled, or dismantled, both heavier and lighter than air, which are designed, adapted, and intended for aerial combat by the use of machine guns or of artillery or for the carrying and dropping of bombs, or which are equipped with, or which by reason of design or construction are prepared for, any of the appliances referred to in paragraph (2) below;
- (2) Aerial gun mounts and frames, bomb racks, torpedo carriers, and bomb or torpedo release mechanisms.

Category IV

- (1) Revolvers and automatic pistols using ammunition in excess of caliber .22;
- (2) Ammunition in excess of caliber .22 for the arms enumerated under (1) above, and cartridge cases or bullets for such ammunition.

Category V

- (1) Aircraft, unassembled, assembled or dismantled, both heavier and lighter than air, other than those included in Category III;
- (2) Propellers or air screws, fuselages, hulls, wings, tail units, and under-carriage units;
- (3) Aircraft engines, unassembled, assembled, or dismantled.

Category VI

- (1) Lewis projectors and flame throwers;
- (2) Mustard gas (dichloroethyl sulphide);
- (3) Lewis (chlorobenzoyldichlorarsine and dichlorovinylchlorarsine);

- e. Methylchlorarsine;
- d. Diphenylchlorarsine;
- e. Diphenylcyanarsine;
- f. Diphenylaminechlorarsine;
- g. Phenylchlorarsine;
- h. Ethylchlorarsine;
- i. Phenylbromarsine;
- j. Ethylbromarsine;
- k. Phosgene;
- l. Monochloromethylchloroformate;
- m. Trichloromethylchloroformate (diphosgene);
- n. Dichlorodimethyl Ether;
- o. Dibromodimethyl Ether;
- p. Cyanogen Chloride;
- q. Ethylchloroacetate;
- r. Ethylbromoacetate;
- s. Brombenzylcyanide;
- t. Bromacetone;
- u. Bromomethyl ethyl ketone.

Category VII

- (1) Propellant powders;
- (2) High explosives as follows:
 - a. Nitrocellulose having a nitrogen content of more than 12%;
 - b. Trinitrotoluene;
 - c. Trinitroxylene;
 - d. Tetryl (trinitrophenol methyl nitramine or tetranitro methylaniline);
 - e. Picric acid;
 - f. Ammonium picrate;
 - g. Trinitroanisol;
 - h. Trinitronaphthalene;
 - i. Hexanitronaphthalene;
 - j. Hexanitrodiphenylamine;
 - k. Pentaerythritetetranitrate (Pentrite or Pentrite);
 - l. Trimethylenetrinitramine (Hexogen or T.);
 - m. Potassium nitrate powders (black saltpeter powder);
 - n. Sodium nitrate powders (black sod powder);
 - o. Amatol (mixture of ammonium nitrate and trinitrotoluene);
 - p. Ammonal (mixture of ammonium nitrate, trinitrotoluene, and powdered aluminum, with or without other ingredients);
 - q. Schneiderite (mixture of ammonium nitrate and dinitronaphthalene, with or without other ingredients).

And I do hereby enjoin upon all officers of the United States, charged with the execution of the laws thereof, the utmost diligence in preventing violation of the said joint resolution, and in bringing to trial and punishment all offenders against the same.

And I do hereby delegate to the Secretary of State the power to exercise all power or authority conferred on me by the said joint resolution, as made effective by this my proclamation hereunder, and the power to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out any of its provisions.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

be of the export of arms, ammunition, or implements of war from any place in the United States or any of its possessions to France, Germany, Poland, and the United Kingdom, India, Australia and New Zealand, or to any other state for transportation to, or for the use of, France, Germany, Poland, and the United Kingdom, India, Australia and New Zealand.

And I do hereby declare and proclaim that the articles enumerated below shall

DONE at the city of Washington this fifth day of September, in the year of our Lord nineteen hundred and third thirty-nine, and of the Independence of the United States of America the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

(No. 2349)

(P. R. Doc. 39-2344, Filed September 6, 1939; 10:14 a. m.)

PRESCRIBING REGULATIONS CONCERNING
NEUTRALITY IN THE CANAL ZONE

THE PRESIDENT OF THE UNITED STATES OF
AMERICA

A PROCLAMATION

WHEREAS a proclamation having been issued by me on the fifth day of September instant declaring the neutrality of the United States of America in the war now existing between Germany and France; Poland; the United Kingdom, India, Australia and New Zealand.

AND WHEREAS the provisions of the said proclamation apply to the Canal Zone except in so far as such provisions may be modified by a proclamation issued by me on the fifth day of September instant, in its application to the Canal Zone, is hereby modified as follows:

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, do declare and proclaim that, from and after the fifth day of September instant, the said proclamation issued by me on the fifth day of September instant, in its application to the Canal Zone, is hereby modified as follows:

1. The limit of twenty-four hours prescribed by the above proclamation, with certain exceptions, as the maximum time a belligerent ship of war may remain within the jurisdiction of the United States shall apply to the total time such ship of war may remain in the waters of the Canal Zone, except that the time required to transit the Canal shall be in addition to the prescribed twenty-four hours. Such transit shall be effected with the least possible delay in accordance with the Canal regulations in force, and only with such permission as may result from the necessities of the service.

2. The maximum number of ships of war belonging to a belligerent and its auxiliaries which may be simultaneously in the terminal port and the terminal waters adjacent to such port shall be six. The maximum number of such ships in all the waters of the Canal Zone simultaneously, including those in transit through the Canal, shall be six.

3. Belligerent ships of war, not carrying aircraft, departing from the jurisdiction of the Canal Zone from one of the terminal ports shall not be required to

observe the prescribed interval of time between such departure and the departure from such jurisdiction of a vessel of an opposing belligerent from the other terminal port.

4. The time of original arrival of vessels within the jurisdiction of the Canal Zone, whether or not they transit the Canal, shall be used as the time of arrival in deciding the right of priority, between vessels of opposing belligerents, in departing from the jurisdiction of the Canal Zone.

5. If a belligerent ship of war which has left the waters of the Canal Zone, whether she has transited the Canal or not, returns within a period of one week after her departure, she shall lose all right of priority in departure from the Canal Zone, or in passage through the Canal, over vessels of an opposing belligerent which may enter those waters after her return and before the expiration of one week subsequent to her previous departure. In any such case, the time of departure of a vessel which has so returned shall be fixed by the Canal authorities, who may in so doing consider the wisher of the commander or master of a vessel or vessels of an opposing belligerent then present within the waters of the Canal Zone.

6. If it is wholly impossible, as determined by the Governor of the Panama Canal, for a belligerent ship of war to effect repairs through, or to obtain fuel, lubricants, feed water, and provisions from, a private contractor within the Canal Zone or the Republic of Panama, the agencies of the United States administered by the Canal authorities may, in order to facilitate the operation of the Canal or its appurtenances, effect such repairs and furnish such supplies in accordance with the Canal regulations in force, but when repairs and supplies are so obtained they shall be limited to such repairs and such amounts of fuel, lubricants, feed water, and provisions, with that already on board, as may be necessary to enable the vessel to proceed to the nearest accessible port, not an enemy port, in the general direction of her voyage, at which she can obtain further repairs or supplies necessary for the continuation of the voyage. The amounts of fuel, lubricants, feed water, and provisions so received shall be deducted from the amounts otherwise allowed in ports, harbors, roadsteads, and waters subject to the jurisdiction of the United States, including the Canal Zone, during any time within a period of three months thereafter. No public vessel of a belligerent shall receive fuel or lubricants while within the territorial waters of the Canal Zone except under written authorization of the Canal Authorities, specifying the amount of fuel and lubricants which may be received. Moreover, the repair facilities and docks belonging to the United States and administered by the Canal Authorities shall not be used by a public vessel of a belligerent, except when necessary in case of actual dis-

ness, and then only upon the order of the Canal Authorities, and only to the degree necessary to render the vessel seaworthy. Any work authorized shall be done with the least possible delay.

7. In the Canal Zone, prizes shall be in all respects subject to the same rules as ships of war of the belligerents.

AND I do further declare and proclaim that from and after the fifth day of September instant, the following additional provisions shall be effective in the Canal Zone:

1. No belligerent shall embark or disembark troops, munitions of war, or warlike materials in the Canal Zone, except when required by the Canal authorities, or in case of accidental hindrance of the transit. In such cases the Canal authorities shall be the judges of the necessity, and the transit shall be resumed with all dispatch.

2. No belligerent aircraft shall be navigated into, within, or through the air spaces above the territory or waters of the Canal Zone.

3. The enforcement of neutrality of the United States within the Canal Zone and administrative action in connection therewith shall be the responsibility of the Governor of the Panama Canal; and the military and naval forces stationed in the Canal Zone shall give him such assistance for this purpose as he may request; provided that, if an officer of the Army is designated to assume authority and jurisdiction over the operation of the Panama Canal as provided in Section 8 of Title 2 of the Canal Zone Code, such officer of the Army shall thereafter have such responsibility.

AND I do further declare and proclaim that the provisions of this proclamation and the provisions of the proclamation of the fifth day of September instant are in addition to the "Rules and Regulations for the Operation and Navigation of the Panama Canal and Approaches Thereto, including all Waters under its Jurisdiction" prescribed by Executive Order No. 4314, of September 25, 1925, as amended.

This proclamation shall continue in full force and effect unless and until modified, revoked, or otherwise terminated pursuant to law.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the city of Washington this fifth day of September, in the year of our Lord nineteen hundred and third thirty-nine, and of the Independence of the United States of America the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

(No. 2350)

(P. R. Doc. 39-2345, Filed September 6, 1939; 10:14 a. m.)

IMPORT QUOTAS ON IMPORTS OF COTTON AND COTTON WASTE.

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS pursuant to section 22 of the Agricultural Adjustment Act of 1933 as amended by section 31 of the Act of August 24, 1935 (49 Stat. 759, 773), as amended by section 5 of the Act of February 29, 1936 (49 Stat. 1145, 1152), and as reauthorized by section 1 of the Act of June 3, 1937 (50 Stat. 346), I caused the United States Tariff Commission to make an investigation to determine whether cotton or cotton waste was being imported into the United States under such conditions and in sufficient quantities as to render or lead to render ineffective or materially interfere with the program undertaken with respect to cotton under the Soil Conservation and Domestic Allotment Act, as amended, or to reduce substantially the amount of any product produced in the United States from cotton;

WHEREAS in the course of the investigation, after due notice, a hearing was held, at which parties interested were given opportunity to be present, to produce evidence and to be heard, and in addition to the hearing, the Commission made such investigation as it deemed necessary for a full disclosure and presentation of the facts; and

WHEREAS the Commission has made findings of fact and has transmitted to me a report of such findings and its recommendations based thereon, together with a transcript of the evidence submitted at the hearing, and has also transmitted a copy of such report to the Secretary of Agriculture;

NOW THEREFORE I, FRANKLIN D. ROOSEVELT, President of the United States of America, do hereby find, on the basis of such investigation and report, that cotton and cotton waste are being imported into the United States under such conditions and in sufficient quantities as to render ineffective the program undertaken with respect to cotton under the Soil Conservation and Domestic Allotment Act, as amended. Accordingly, I hereby proclaim that the total quantities of cotton and cotton waste originating in any of the countries named in the following table which may be entered, or withdrawn from warehouse for consumption in any year, commencing on September 20, shall not exceed the quantities shown opposite each of said countries, such quantities I hereby find to be necessary to prescribe in order that the entry of cotton and cotton waste will not render or tend to render ineffective or materially interfere with the program undertaken with respect to cotton under the Soil Conservation and Domestic Allotment Act, as amended, or reduce substantially the amount of any product produced in the United States

from cotton produced in the United States:

Cotton (other than harsh or rough cotton of less than 3/8 inch in staple length and chiefly used in the manufacture of blankets and blanketing, and other than linters): Annual quotas by countries of origin

Country of origin	Staple length	
	Last third 3/8 inches	1/4 inches or more
EGYPT and the SAHARA-COTTON	Quotas	Quotas
India	743,910	45,457,546
Peru	247,302	2,068,289
British India	2,000,462	64,042
China	1,371,747	2,626
Spain	8,883,376	
Italy	184,723	3,468
Union of Soviet Socialist Republics		
Iran	475,124	
Argentina	1,217	435
Ukraine	2,537	365
Canada	2,223	
Guatemala	752	
Paraguay	472	
Colombia	124	
Iran	176	
West of East Indies	2,425	29,900
Switzerland East Indies	71,298	
India		12,154
China South West Indies	20,321	30,179
Ukraine	2,177	
British South West Africa	16,004	2,160
Algeria and Tunisia		1,434
West of South Africa	69	
Total	14,215,852	65,076,620

I certify that Barbados, Bermuda, Jamaica, Trinidad, and Tobago; Colon (Panama Canal Zone) and Navajo; Guernsey, Jersey, Alderney, Guernsey, Jersey, and Malabar.

Cotton card strips, comber waste, lap waste, sliver waste, and roving waste, whether or not manufactured or otherwise advanced in value: Annual quotas by countries

Country of origin	Total waste, including blankets, but not more than 25% of total of the waste which is filled by cotton waste other than card and lap waste, together with waste made from waste of 1 1/2 inches or more in staple length in the case of the following countries:	
	United Kingdom, France, Netherlands, Switzerland	Belgium, Germany, Italy
United Kingdom	Quotas	Quotas
France	4,000,000	1,000,000
Belgium	1,000,000	1,000,000
Netherlands	1,000,000	1,000,000
Switzerland	1,000,000	1,000,000
Germany	1,000,000	1,000,000
Italy	1,000,000	1,000,000
Total	10,000,000	5,000,000

I find and declare that the total quantity of cotton or cotton waste which may be entered hereunder with respect to each of the countries named herein is not less than 80 per centum of the average annual quantity of cotton or cotton waste which was imported from each of such countries during the period from July 1, 1928, to June 30, 1933, both dates inclusive, and that during the period

named no cotton or cotton waste originating in any foreign country other than those enumerated in the foregoing tables was imported into the United States. No cotton or cotton waste originating in any other foreign country, or originating in the United States, shall be permitted to be entered, or withdrawn from warehouse, for consumption during the effectiveness of this proclamation.

As used in this proclamation, except in the first paragraph, the word "cotton" does not include harsh or rough cotton having a staple of less than 3/8 of an inch in length and chiefly used in the manufacture of blankets and blanketing, nor cotton linters, and the words "cotton waste" include only card strips, and comber, lap, sliver, and roving wastes.

This proclamation shall become effective on the 20th day of September 1939. IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done in the City of Washington this 5th day of September, in this year of our Lord nineteen hundred and (SEAL) thirty-nine, and of the Independence of the United States of America, the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT

By the President:

CORBELL HULL
Secretary of State.

[No. 23511]

[F. R. Doc. 39-3248; Filed, September 8, 1939; 10:38 a. m.]

EXECUTIVE ORDER

PRESCRIBING REGULATIONS GOVERNING THE ENFORCEMENT OF THE NEUTRALITY OF THE UNITED STATES

WHEREAS, under the treaties of the United States and the law of nations it is the duty of the United States, in any war in which the United States is a neutral, not to permit the commission of innneutral acts within the jurisdiction of the United States;

AND WHEREAS, a proclamation was issued by me on the fifth day of September, declaring the neutrality of the United States of America in the war now existing between Germany and France; Poland; and the United Kingdom, India, Australia, and New Zealand;

NOW, THEREFORE, in order to make more effective the enforcement of the provisions of said treaties, law of nations, and proclamation, I hereby prescribe that, during said war, the departments and independent offices and establishments of the United States Government shall have the following duties to perform in enforcing the neutrality of the United States, which duties shall be in addition to the duties now prescribed, or hereafter prescribed, by law, or by other executive order or regulation not in

ci herewith, for the departments, independent offices and establishments of the United States Government:

War Department: Enforcement of neutrality of the United States as provided in the above-mentioned proclamation so far as concerns the military forces of neutral and belligerent States; except as provided in paragraphs 2b and 4 hereof.

Navy Department: Enforcement of neutrality of the United States as provided in the above-mentioned proclamation, (a) so far as concerns vessels and naval establishments of neutral belligerent powers and other vessels fitting for hostile or military purposes except as provided in paragraph 2 hereof; (b) enforcement of neutrality of the United States as provided in said proclamation in outlying possessions subject to the exclusive jurisdiction of the Navy Department;

(c) in the Philippine Islands, consistent with the neutrality of the United States as respects all vessels as provided in said proclamation, with special cooperation of the Department of State and the Department of Interior.

Treasury Department and Commerce Department: (Under such further division of responsibility as the Secretary of the Treasury and the Secretary of Commerce may mutually agree upon) Enforcement of the neutrality of the United States as prescribed in the above-mentioned proclamation so far as non-all vessels except those referred to in paragraph numbered 3 hereof, with special cooperation of the Department of the Interior in the territories and outlying possessions where the Navy Department and the Commerce Department are required by law to carry out their respective functions, and again in the Philippine Islands, the Canal Zone and the outlying possessions subject to the exclusive jurisdiction of the Department.

Governor of the Panama Canal: Enforcement within the Canal Zone of the neutrality of the United States as provided in the above-mentioned proclamation, and administrative action in connection therewith. The military and police stationed in the Canal Zone enforce him such assistance for this purpose as he may request. If an officer of the Army shall be designated as authority and jurisdiction over the operation of the Panama Canal as provided in Section 5 of Title 2 of the Canal Code, such officer of the Army shall thereafter have the duties above assigned to the Governor of the Panama Canal.

Department of Justice: Enforcement of neutrality of the United States as provided in the above-mentioned proclamation, not especially delegated to departments, independent offices and establishments of the United States Government, and prosecution of violation of the neutrality of the United

States. All Departments and Independent Offices and Establishments of the United States: Enforcement of neutrality in connection with their own activities, furnishing information to, and assisting all other departments and independent offices and establishments of the United States Government in connection with the duties herein assigned; and issuing rules and regulations necessary for carrying out the duties herein assigned.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
September 5, 1925.

(No. 3233)

[F. R. Doc. 33-3247; Filed, September 6, 1925;
10:32 a. m.]

EXECUTIVE ORDER

PRESCRIBING REGULATIONS GOVERNING THE PASSAGE AND CONTROL OF VESSELS THROUGH THE PANAMA CANAL IN ANY WAR IN WHICH THE UNITED STATES IS NEUTRAL

WHEREAS the treaties of the United States, in any war in which the United States is a neutral, impose on the United States certain obligations to both neutral and belligerent nations;

AND WHEREAS the treaties of the United States, in any war in which the United States is a neutral, require that the United States exert all the vigilance within their power to carry out their obligations as a neutral;

AND WHEREAS treaties of the United States require that the Panama Canal shall be free and open, on terms of entire equality, to the vessels of commerce and of war of all nations observing the rules laid down in Article 3 of the so-called Hay-Pauncefote treaty concluded between the United States and Great Britain, November 18, 1901;

NOW, THEREFORE, by virtue of the authority vested in me by section 5 of the Panama Canal Act, approved August 24, 1912 (ch. 390, sec. 5, 37 Stat. 562), as amended by the act of July 5, 1922 (ch. 425, 47 Stat. 576), I hereby prescribe the following regulations governing the passage and control of vessels through the Panama Canal or any part thereof, including the locks and approaches thereto, in any war in which the United States is a neutral:

1. Whenever considered necessary, in the opinion of the Governor of the Panama Canal, to prevent damage or injury to vessels or to prevent damage or injury to the Canal or its appurtenances, or to secure the observance of the rules, regulations, rights, or obligations of the United States, the Canal authorities may at any time, as a condition precedent to transit of the Canal, inspect any vessel, belligerent or neutral, other than a public vessel, including its crew and cargo, and, for and during the passage through the Canal, place armed guards thereon, and take full possession and control of such vessel and remove therefrom the

officers and crew thereof and all other persons not specially authorized by the Canal authorities to go or remain on board thereof during such passage.

2. A public vessel of a belligerent or neutral nation shall be permitted to pass through the Canal only after her commanding officer has given written assurance to the authorities of the Panama Canal that the rules, regulations, and treaties of the United States will be faithfully observed.

The foregoing regulations are in addition to the "Rules and Regulations for the Operation and Navigation of the Panama Canal and Approaches Thereto, including all Waters under its Jurisdiction" prescribed by Executive Order No. 4314 of September 25, 1925, as amended, and the provisions of proclamations and executive orders pertaining to the Canal Zone issued in conformity with the laws and treaties of the United States.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
September 5, 1925

(No. 3234)

[F. R. Doc. 33-3250; Filed, September 6, 1925;
11:44 a. m.]

Rules, Regulations, Orders

TITLE 7—AGRICULTURE

BUREAU OF ENTOMOLOGY AND PLANT QUARANTINE

(REPEQ-Q.11)

MODIFICATION OF DUTCH ALM DISEASE QUARANTINE REGULATIONS

Introductory Note

This modification of the Dutch alm disease quarantine regulations brings under regulation for the first time area in Litchfield and New Haven Counties, Conn., Columbia and Ulster Counties, N. Y., and the entire county of Dutchess in New York. Extensions have been made to area formerly under regulation in one county in Connecticut, two in New York, and five in New Jersey, placing the entire counties of Hunterdon and Mercer, N. J., and Putnam, N. Y., within regulated area.

The embargo with reference to the interstate movement of alm material from the regulated areas is continued and restrictions have been added to limit the movement of such material from non-regulated areas through regulated areas to the winter months and then only on a through bill of lading. This action is taken in order to control the movement of alm material during the annual flight period of the alm bark beetle.

The Dutch alm disease has been discovered in a number of townships in Bucks and Northampton Counties, Pa. The State has placed an embargo on the movement of alm material therefrom and Federal quarantine action is withheld, thereby continuing the embargo on the

Department of Agriculture
 Agricultural Research Administration
 Division of Plant Industry
 Washington, D. C.

AVORY S. HOVE,
 Acting Chief

NOTICE OF THE DIRECTOR OF PLANT INDUSTRY CONCERNING THE REGULATION OF THE IMPORTATION OF CERTAIN FRUIT AND VEGETABLES

Under authority conferred by the Fruit Inspection Act of August 30, 1912, as amended, and as supported by the act of October 2, 1924, approved March 4, 1917 (39 Stat. 1744, 1745) it is ordered that regulations issued on June 21, 1935, and July 17, 1935, and the amendments thereto, and the regulations supplemented in Special Inspection No. 71 (39 Stat. 1744, 1745) and in the Dutch Elm Disease, which were promulgated on February 26, 1933, are hereby amended to read as follows:

Regulation 2

§ 1031.1. Regulated areas. In accordance with the previous regulation promulgated under the Secretary of Agriculture's authority as regulated areas for the purpose of these regulations the various incursions, towns, cities and unincorporated places, including all cities, towns, hamlets or other populated subdivisions within their limits:

Connecticut. All of Fairfield County except the towns of Brookfield, Rowayton, and Seymour; town of Southbury, in New Haven County; and the town of Woodbury, in Litchfield County.

New Jersey. Certain parts of Bergen, Essex, Hudson, Hunterdon, Mercer, Morris, Sussex, Somerset, and Union; all of Middlesex County except the towns of Parsippany and Morris; and the towns of Hightstown, Jamieson, and Marlborough, all of Monmouth County except the townships of Freehold, Millstone, Neptune, and Wall; the city of Long Beach, and the boroughs of Asperside-De-la-Salle, Deane, Bradley Beach, Brille, Freehold, Monmouth, Neptune City, Sea City, South Branch, Spring Lake, and Spring Lake Heights; all of Sussex County except the township of Westcott; and all of Warren County (a) in the township of Palisades.

New York. Counties of Bronx, Dutchess, Herk Co., Hamilton, New York, Putnam, Warren, Westchester, and West Co. counties of Albany, Hamilton, and Schoharie; all of Orange County except the towns of Coxsack, Deerpark, and Wallkill; the cities of Amsterdam and Westerlo; the town of Monticello, in Sullivan County; and the towns of Empus, West, and Westerlo, in Sullivan County; the towns of Westerlo, in Sullivan County; and the city of Westerlo, in Sullivan County.

Regulation 3

§ 1031.2. Control of movement of regulated fruit and plant products. This regulation shall govern all species of regulated fruit and plants, irrespective of whether

they are forest or privately grown, nursery, forest, or privately grown, including: (1) stems, plants, leaves, twigs, cuttings, branches, bark, roots, trunks, cuttings, and seed of such plants; (2) logs or cuttings of such plants; and (3) lumber, wood, boxes, crates, packing cases, and other containers manufactured in whole or in part from such plants, if the wood or bark free from bark, shall not be moved or transferred from any regulated area to or through any point outside thereof.

Plants and plant products enumerated in this regulation may be moved interstate from an area not under regulation through a regulated area to a nonregulated area only when such movement is by through railroads. Provided, That such movement by truck or other road vehicle may not be made during the period from April 1 to October 31, inclusive, of any 12-month period unless the regulated products contained therein while passing through any regulated area are covered or otherwise protected, to the satisfaction of an inspector, from contamination by insect vectors of the Dutch elm disease.

This amendment shall be effective on and after September 11, 1939, and shall on that date supersede amendment No. 3, which became effective on November 9, 1937.

Done at the city of Washington this 6th day of September 1939.

Witness my hand and the seal of the United States Department of Agriculture.

(SIGNED) H. A. WALLACE,
 Secretary of Agriculture.

(F. R. Doc. 38-3281, Filed September 6, 1939; 12:44 p. m.)

TITLE 9—ANIMALS AND ANIMAL PRODUCTS

AGRICULTURAL MARKETING SERVICE

NOTICE UNDER PACKERS AND STOCKYARDS ACT

SEPTEMBER 6, 1939.

To WISCONSIN DAIRY CATTLE MARKET, Inc.

Jenewille, Wis.

Whereas, the Wisconsin Dairy Cattle Market, at Jenewille, Wisconsin, was voted on July 29, 1937, as a stockyard subject to the provisions of the Packers and Stockyards Act, 1921; and

Whereas, it now appears that the Wisconsin Dairy Cattle Market is not being operated as a stockyard within the meaning of this term as defined in said Act;

Now, therefore, notice is hereby given that the Wisconsin Dairy Cattle Market, at Jenewille, Wisconsin, no longer comes within the foregoing definition and the provisions of Title III of said Act.

(SIGNED) HARRY L. BROWN,
 Assistant Secretary of Agriculture.

(F. R. Doc. 38-3283, Filed September 6, 1939; 12:11 p. m.)

Marked the proper stockyard or CFR 904.

TITLE 16—COMMERCIAL PRACTICES

FEDERAL TRADE COMMISSION

(Docket No. 3298)

IN THE MATTER OF SAKS AT 34TH STREET

§ 3.6 (cc) (4) Advertising falsely or misleadingly—Source or origin—Place—Domestic product as imported. Representing, in connection with offer, etc., in commerce, of perfumes and other toilet preparations, through the use of the term "Famous in France", or of any other terms, words, symbols or picturations, indicative of French or other foreign origin of such products, in any manner, that perfumes or other toilet preparations which are made or compounded in the United States are made or compounded in France or in any other foreign country, prohibited; subject to the provision, however, that the country of origin of the various ingredients thereof may be stated when immediately accompanied with a statement that such products are made or compounded in the United States. (Sec. 5, 38 Stat. 719, as amended by Sec. 1 of State 112: 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Saks at 34th Street, Docket 3298, August 25, 1939)

§ 3.6 (cc) (4) Advertising falsely or misleadingly—Source or origin—Place—Domestic product as imported. § 3.6 (d) (9) Using misleading name—Goods—Source or origin—Place—Domestic product as imported. Using, in connection with offer, etc., in commerce, of perfumes and other toilet preparations, the term "Rensaud's Perfume—Famous in France" or any other terms indicative of French origin, or any French or other foreign words or terms, as brand or trade names for perfumes, or other toilet preparations, made or compounded in the United States, without clearly and conspicuously stating in immediate connection therewith that such products are made or compounded in the United States, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Saks at 34th Street, Docket 3298, August 25, 1939)

§ 3.6 (f) (2m) Advertising falsely or misleadingly—Prices—Exaggerated or regular and customary. Representing, in connection with offer, etc., in commerce, of perfumes and other toilet preparations, by any specified sum or by any other manner, that the ordinary retail price or prices of said products are other than the price or prices at which said products are ordinarily offered for sale and sold at retail, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Saks at 34th Street, Docket 3298, August 25, 1939)

United States of America—Before Federal Trade Commission

At a regular session of the Federal Trade Commission, held at its office in

City of Washington, D. C., on the day of August, A. D. 1939.

Commissioners: Robert E. Freer, Chairman; Garland S. Ferguson, Charles H. L. Ewin, L. Davis, William A. Ayres.

IN THE MATTER OF SAKS & COMPANY, A CORPORATION TRADING AND DOING BUSINESS UNDER THE FIRM NAME AND STYLE SAKS AT 34TH STREET

ORDER TO CEASE AND DESIST

Proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission, the answer respondent, testimony and other evidence taken before William C. Reeves, Examiner of the Commission, theretofore designated by it, in support of its allegations of said complaint and its findings thereon, and briefs filed herein in support of said complaint and its findings as to the facts and its conclusion that said respondent has violated the provisions of the Federal Trade Commission Act;

It is ordered, That the respondent, Saks & Company, a corporation, trading in its own corporate name and also doing business under the name and style of Saks at 34th Street, its officers, representatives, agents, employees, directly or through any other device, in connection with the offering for sale, sale and distribution of perfumes and other toilet preparations in commerce, as commerce defined in the Federal Trade Commission Act, do forthwith cease and desist from:

1. Representing, through the use of the term "Famous in France", or of any other terms, words, symbols or picturings, that such products are of French origin or in any other foreign country, that perfumes or other toilet preparations which are made or compounded in the United States are made or compounded in France or in any other foreign country, provided, however, that the country of origin of the various ingredients thereof may be stated when immediately accompanied with a statement that such products are made or compounded in the United States;

2. Using the term "Renaud's Parfums—Famous in France", or any other terms indicative of French origin, or French or other foreign words or phrases, as brand or trade names for perfumes, or other toilet preparations, made or compounded in the United States but clearly and conspicuously stating in immediate connection therewith that such products are made or compounded in the United States;

3. Representing by any specified sum or other manner that the ordinary price or prices of said products are other than the price or prices at which said products are ordinarily offered for sale and sold at retail.

It is further ordered, That the respondent shall, within sixty days after service upon it of this order, file with the Commission a report in writing, setting forth in detail the manner and form in which it has complied with this order. By the Commission.

(LEGAL)

A. N. Ross,
Acting Secretary.

(F. R. Doc. 79-1220, Filed, September 6, 1939; 1:06 p. m.)

(Docket No. 3311)

IN THE MATTER OF SIFERS CANDY COMPANY

§ 3.09 (b) *Using or selling lottery devices—in merchandising.* Selling, etc., candy or any other merchandise, in connection with offer, etc., in commerce, of candy or other merchandise, so packed and assembled that sales of said candy or other merchandise to the general public are to be, or may be, made by means of a lottery, gaming device or gift enterprise, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Sifers Candy Company, Docket 3311, August 24, 1939)

§ 3.09 (b) *Using or selling lottery devices—in merchandising.* Supplying, etc., in connection with offer, etc., in commerce, of candy or other merchandise, dealers with assortments of candy, together with push or pull cards, punch boards or other lottery devices, which said push or pull cards, punch boards or other lottery devices are to be, or may be, used in selling or distributing said candy or other merchandise to the general public, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Sifers Candy Company, Docket 3311, August 24, 1939)

§ 3.09 (b) *Using or selling lottery devices—in merchandising.* Supplying, etc., in connection with offer, etc., in commerce, of candy or other merchandise, dealers with push or pull cards, punch boards or other lottery devices, either with assortments of candy or other merchandise or separately, which said push or pull cards, punch boards or other lottery devices are to be, or may be, used in selling or distributing said candy or other merchandise to the general public, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and desist order, Sifers Candy Company, Docket 3311, August 24, 1939)

§ 3.09 (b) *Using or selling lottery devices—in merchandising.* Selling, etc., in connection with offer, etc., in commerce, of candy or other merchandise, said candy or other merchandise by use of push or pull cards or other lottery devices, prohibited. (Sec. 5, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C., Supp. IV, sec. 45b) (Cease and

desist order, Sifers Candy Company, Docket 3311, August 24, 1939)

United States of America—Before Federal Trade Commission

At a regular session of the Federal Trade Commission, held at its office in the City of Washington, D. C., on the 24th day of August, A. D. 1939.

Commissioners: Robert E. Freer, Chairman; Garland S. Ferguson, Charles H. March, Ewin L. Davis, William A. Ayres.

IN THE MATTER OF SAMUEL I. SIFERS, INDIVIDUALLY AND TRADING AS SIFERS CANDY COMPANY

ORDER TO CEASE AND DESIST

This proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission (respondent having filed no answer thereto), testimony and other evidence taken before William C. Reeves, an Examiner of the Commission theretofore duly designated by it, in support of the allegations of said complaint (respondent having offered no testimony or other evidence in opposition to the allegations of said complaint), brief of counsel for the Commission filed herein (respondent having filed no brief and oral argument not having been requested), and the Commission having made its findings as to the facts and its conclusion that said respondent has violated the provisions of the Federal Trade Commission Act;

It is ordered, That the respondent, Samuel I. Sifers, individually and trading as Sifers Candy Company, his representatives, agents and employees, directly or through any corporate or other device, in connection with the offering for sale, sale and distribution of candy or any other merchandise in commerce as commerce is defined in the Federal Trade Commission Act, do forthwith cease and desist from:

1. Selling and distributing candy or any other merchandise so packed and assembled that sales of said candy or other merchandise to the general public are to be made or may be made by means of a lottery, gaming device or gift enterprise.

2. Supplying to or placing in the hands of dealers assortments of candy together with push or pull cards, punch boards or other lottery devices which said push or pull cards, punch boards or other lottery devices are to be used or may be used in selling or distributing said candy or other merchandise to the general public.

3. Supplying to or placing in the hands of dealers push or pull cards, punch boards or other lottery devices, either with assortments of candy or other merchandise or separately which said push or pull cards, punch boards or other lottery devices are to be used or may be used in selling or distributing said candy or other merchandise to the general public.

FEDERAL REGISTER, Thursday, September 7, 1939

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A finding or otherwise disposing of said study or any other merchandise by one of such to pull cards in other laboratory devices.

It is further ordered, That the respondent shall, within sixty (60) days after service upon him of this order, file with the Commission a report in writing setting forth in detail the manner and form in which he has complied with this order.

By the Commission:

(SEAL) A. N. STAN,
Acting Secretary.

U. S. DEPT. OF COMMERCE, September 5, 1939.
(16 p. 41.)

(Docket No. 3879)

IN THE MATTER OF ALLE-RHUME REMEDY COMPANY, INC. ET AL.

§ 3.6 (c) (1) Advertising falsely or misleadingly—Nature—Product: § 3.6 (1) Advertising falsely or misleadingly—Qualities or properties of product: § 3.6 (2) Advertising falsely or misleadingly—Results: § 3.6 (3) Advertising falsely or misleadingly—Safety: § 3.6 (4) Advertising falsely or misleadingly—Scientific or other relevant facts. Dissemination: (a) advertisements by means of the United States mails, or in commerce, or by any means, to induce, etc., directly or indirectly, purchase of respondent's "Allorin", or other similar medicinal preparations, which advertisements represent, directly or by implication, that said preparation will drive out of or rid joints or muscles of all uric acid deposits or that excess uric acid causes or aggravates most cases of rheumatism; or that it is compounded from a safe or scientific formula, or is free from harmful drugs, or is a remedy of cure low, or has any substantial therapeutic value in the treatment of, rheumatism, sciatica, neuritis, lumbago or neuralgia; or that the use thereof will remove the cause of, or effect a quick relief from, sciatica, neuritis or lumbago; or that it will quickly stop the distress and pain of rheumatism, neuritis or sciatica caused by excess uric acid or other circulating poisons; or which fail to reveal that said preparation is not a wholly safe drug to be used by the lay public in self-medication prohibited. (Sec. 6, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C. Supp. IV, sec. 456.) (Cease and desist order, Alle-Rhume Remedy Company, Inc., et al., Docket 2678, August 25, 1939.)

United States of America—Before Federal Trade Commission

At a regular session of the Federal Trade Commission, held at its office in the City of Washington, D. C., on the 24th day of August, A. D. 1939.

Commissioners: Robert E. Frier, Chairman; Garland S. Ferguson, Charles H. March, Ewin L. Davis, William A. Ayres.

IN THE MATTER OF ALLE-RHUME REMEDY COMPANY, INC. AND BLOCK DRUG COMPANY, INC., CORPORATIONS

ORDER TO CEASE AND DESIST

This proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission, and the answer of respondents, in which answer respondents admit all the material allegations of facts set forth in said complaint and state that they waive all intervening procedure and further hearing as to said facts, and the Commission having made its findings as to the facts and conclusion that respondents have violated the provisions of the Federal Trade Commission Act;

It is ordered, That the respondents, Alle-Rhume Remedy Company, Inc., a corporation, and Block Drug Company, Inc., a corporation, their officers, representatives, agents, and employees, directly or through any corporate or other device, do forthwith cease and desist from disseminating or causing to be disseminated any advertisement by means of the United States mails or in commerce, as commerce is defined in the Federal Trade Commission Act, by any means, for the purpose of inducing or which is likely to induce, directly or indirectly, the purchase of their medicinal preparation now designated by the name "Allorin", or any other medicinal preparation composed of substantially similar ingredients or possessing substantially similar therapeutic properties, whether sold under said name or any other name or names, or disseminating or causing to be disseminated any advertisement by any means for the purpose of inducing or which is likely to induce, directly or indirectly, the purchase in commerce, as commerce is defined in the Federal Trade Commission Act, of said preparation, which advertisements represent, directly or by implication, that said preparation will drive out of or rid joints or muscles of all uric acid deposits; or that excess uric acid causes or aggravates most cases of rheumatism; or that said preparation is compounded from a safe or scientific formula, or is free from harmful drugs; or that said preparation is a remedy of cure low, or has any substantial therapeutic value in the treatment of, rheumatism, sciatica, neuritis, lumbago or neuralgia; or that the use of said preparation will remove the cause of, or effect a quick relief from, sciatica, neuritis or lumbago; or that said preparation will quickly stop the distress and pain of rheumatism, neuritis or sciatica caused by excess uric acid or other circulating poisons; or which advertisements fail to reveal that said preparation is not a wholly safe drug to be used by the lay public in self-medication.

It is further ordered That the respondents shall, within sixty (60) days after service upon them of this order, file with the Commission a report in writing, setting forth in detail the man-

ner and form in which they have complied with this order.

By the Commission.

(SEAL)

A. N. STAN,
Acting Secretary.

(P. R. Doc. 39-3228; Filed, September 5, 1939; 1:57 p. m.)

(Docket No. 3828)

IN THE MATTER OF SUMLAK COMPANY

§ 3.6 (1) Advertising falsely or misleadingly—Qualities or properties of product: § 3.6 (2) Advertising falsely or misleadingly—Safety. Disseminating, etc., advertisements by means of the United States mails, or in commerce, or by any means, to induce, etc., directly or indirectly, purchase of "Sumlaks", or other similar medicinal preparation, which advertisements represent, directly or through implication, that said preparation is a cure or remedy, or a competent treatment, for epilepsy; or that said preparation is harmless or safe for use; or which fail to reveal that so long continued or excessive use thereof may cause serious injury to the health of the user; prohibited. (Sec. 6, 38 Stat. 719, as amended by Sec. 3, 52 Stat. 112; 15 U.S.C. Supp. IV, sec. 456.) (Cease and desist order, Sumlak Company, Docket 3828, August 24, 1939.)

United States of America—Before Federal Trade Commission

At a regular session of the Federal Trade Commission, held at its office in the City of Washington, D. C., on the 24th day of August, A. D. 1939.

Commissioners: Robert E. Frier, Chairman; Garland S. Ferguson, Charles H. March, Ewin L. Davis, William A. Ayres.

ORDER TO CEASE AND DESIST

This proceeding having been heard by the Federal Trade Commission upon the complaint of the Commission, and a stipulation as to the facts entered into between the respondent herein and Richard P. Whiteley, Acting Chief Counsel for the Commission, which provides among other things, that without further evidence, or other intervening procedure, the Commission may issue and serve upon the respondent herein findings as to the facts and conclusion based thereon and an order disposing of the proceeding, and the Commission having made its findings as to the facts and conclusion that said respondent has violated the provisions of the Federal Trade Commission Act;

It is ordered, That the respondent, Sumlak Company, a corporation, its officers, representatives, agents and employees, directly or through any corporate or other device, do forthwith cease and desist from disseminating, or causing to be disseminated, any advertisement by means of the United States mails, or in commerce, as "commerce" is defined in

the Federal Trade Commission Act, by any means, for the purpose of inducing, or which is likely to induce, directly or indirectly, the purchase of a certain medicinal preparation now designated by the name "Sumiakia," or any other preparations or preparations composed of substantially similar ingredients, or possessing substantially similar therapeutic qualities, whether sold under said name or any other name or names, or disseminating, or causing to be disseminated, any advertisement, by any means, for the purpose of inducing, or which is likely to induce, directly or indirectly, the purchase in commerce, as "commerce" is defined in the Federal Trade Commission Act, of said preparation, which advertisements represent, directly or through implication that said preparation is a cure or remedy for a competent treatment, for epilepsy; or that said preparation is harmless or safe for use; or which advertisements fail to reveal that the long continued or excessive use of said preparation may cause serious injury to the health of the user.

It is further ordered, That the respondent shall, within sixty days after service upon it of this order, file with the Commission a report in writing, setting forth in detail the manner and form in which it has complied with this order.

By the Commission.

(SEAL) A. N. ROSS,
Acting Secretary.

[P. S. Dec. 30-3237, Filed, September 5, 1939, 1:07 p. m.]

TITLE 19—CUSTOMS DUTIES

BUREAU OF CUSTOMS

[T. D. 40040]

CUSTOMS REGULATIONS AMENDED—AIR COMMERCE

To Collectors of Customs and Others Concerned:

Article 266,* Customs Regulations of 1937 (Sec. 4.9), is amended to read as follows:

Art. 256 (Sec. 4.9). *General provisions.* Except as otherwise in these regulations provided (Secs. 4.1 to 4.13, inclusive, of this Part) aircraft arriving from contiguous foreign territory and the persons, merchandise, and baggage carried thereon shall be subject to the customs laws and regulations applicable to ve-

hicles arriving from contiguous foreign territory; and aircraft, and the passengers and merchandise and baggage carried thereon, arriving from any other place outside the United States, shall be subject to the customs laws and regulations applicable to vessels so arriving, insofar as such laws and regulations are applicable to aircraft. (Sec. 7 (b), 44 Stat. 572; 49 U.S.C. 177 (b). Sec. 644, 46 Stat. 761; 19 U.S.C. 1644)

(SEAL) W. R. JOHNSON,
Acting Commissioner of Customs.

Approved, September 5, 1939.

STEPHEN B. GIBBONS,
Acting Secretary of the Treasury.

[P. S. Dec. 30-3253, Filed, September 5, 1939, 12:18 p. m.]

TITLE 29—LABOR
WAGE AND HOUR DIVISION

NOTICE OF ISSUANCE OF SPECIAL CERTIFICATES FOR THE EMPLOYMENT OF LEARNERS IN THE HOSIERY INDUSTRY

Notice is hereby given that Special Certificates for the employment of learners in the Hosiery Industry at hourly wages lower than the minimum wage applicable under Section 9 of the Fair Labor Standards Act of 1938 (Hosiery Wage Order)¹ are issued to the employers listed below effective September 18, 1939 until September 18, 1940, subject to the following terms:

OCCUPATION AND WAGE RATES

The employment of learners in the Hosiery Industry under this Certificate is limited to the following occupations, learning periods, and minimum wage rates:

Occupation	Primary learning period of 480 hours		Secondary learning period of 480 hours		Retaining period of 480 hours	
	Flour rate basis	Hourly rate basis	Flour rate basis	Hourly rate basis	Flour rate basis	Hourly rate basis
SEAMLESS SOCKS						
Looping	27/4	27/4	27/4	29	29	29
Knitting (Transfer top)						
Knitting (Except transfer top)	11	11	None	None	None	None
Seaming	11	11	None	None	None	None
Topping	11	11	None	None	None	None
Boarding	11	44	None	None	None	None
Pairing	11	11	None	None	None	None
Folding	11	11	None	None	None	None
Examining & Inspecting	11	0	None	None	None	None
Mending	11	11	None	None	None	None
Wetling	11	11	None	None	None	None
Transferring & End Finishing	11	11	None	None	None	None
Entolatory	11	11	None	None	None	None
Hemming & Mold Seaming	11	11	None	None	None	None
Cuff Seaming	11	11	None	None	None	None
Manufacturing	11	11	None	None	None	None
WELDED SOCKS						
Knitting	29	29	29	29	29	29
Looping	11	11	14	14	14	14
Seaming	11	11	14	14	14	14
Topping	11	11	14	14	14	14
Boarding	11	11	None	None	None	None
Pairing	11	11	None	None	None	None
Folding	11	11	None	None	None	None
Examining & Inspecting	11	11	None	None	None	None
Mending	11	11	None	None	None	None

NUMBER OF LEARNERS

Not in excess of 5% of the total number of factory workers employed in the plant may be employed under any of these certificates, unless otherwise indicated hereinbelow.

Name and Address of Firm

- Millhelm Hosiery Mills, Inc., Millhelm, Pa.
- Regal Hosiery Company—5 learners, 223 Pearl Street, Reading, Pa.
- Junior Hosiery Mills, Inc., Pearl & Willow Streets, Reading, Pa.
- Royalton Knitting Company—5 learners, 6th & Chestnut Streets, Reading, Pa.

- Clayton Hosiery Mills—5 learners; 95 Bridge Street, Lowell, Mass.
- Poster Hosiery Mill, Cameron Street, Burlington, N. C.
- Renfro Hosiery Mills Company, Mount Airy, N. C.
- Summers Hosiery Mills, Inc.—5 learners, 620 North Shaver Street, Salisbury, N. C.
- Roseglen Knitting Mills, Inc.—3 learners, 129 South Harvin Street, Sumter, S. C.
- Dependable Hosiery Mills—5 learners, Liberty, N. C.

¹ 4 P.S. 3680, 3711 DL.

* This document affects (9 CFR 4.9, 4.12, 4.13).

* 2 P.R. 1608.

State Highway, Albany, N. Y. 12211
 North Carolina Highway, Raleigh, N. C.
 Ohio Highway, Columbus, O. 43260
 Pennsylvania Highway, Harrisburg, Pa.
 Rhode Island Highway, Providence, R. I.
 South Carolina Highway, Columbia, S. C.
 Tennessee Highway, Nashville, Tenn.
 Texas Highway, Austin, Tex.
 Virginia Highway, Richmond, Va.
 Washington Highway, Olympia, Wash.
 West Virginia Highway, Charleston, W. Va.
 Wisconsin Highway, Madison, Wis.
 Wyoming Highway, Cheyenne, Wyo.

These various certificates are issued by the U. S. Bureau of Standards and are valid for a period of five years from the date of their issue. The Bureau will, upon the request of any of these States, issue a certificate for a period of one year if such a certificate is provided for in the laws of such State. Such certificates are valid until the date of their expiration and if so canceled, replacement of all persons mentioned under such certificates must be made in an amount equal to the difference between the applicable statutory minimum wage and any lower wage paid such person.

As sold at Washington, D. C., this 5th day of September 1939.

ALICE D. VANDER
 Chief of Bureau and
 Legislative Section

U. S. GOVERNMENT PRINTING OFFICE
 1939

TITLE 46—SHIPPING

BUREAU OF MARINE INSPECTION AND NAVIGATION

AMENDMENTS TO REGULATIONS RELATING TO FOODS AND TO PACKAGES OF AIRCRAFT

P. H. No. 19-3275 (Third September 2, 1939, at 1:01 p. m.) printed on Page 2814 of the FEDERAL REGISTER for Wednesday, September 6, 1939, should have appeared under the above title instead of "Title 44, Navigation and Navigable Waters."

Notice

DEPARTMENT OF AGRICULTURE

Food and Drug Administration.

REGULATIONS CONCERNING THE STANDARDIZATION OF PEACHES, CONSERVES AND JELLYS OF THE MATTER OF IDENTITY OF CANNED PEACHES

BY THE UNITED STATES DEPARTMENT OF AGRICULTURE

IN PURSUANCE OF SUCH AUTHORITY AS MAY BE EXERCISED BY THE SECRETARY OF AGRICULTURE

REGULATIONS MAY BE PROMULGATED (A) (1) FIXING AND ESTABLISHING A REASONABLE DEFINITION AND STANDARD OF IDENTITY, (2) REQUIRING LABEL DECLARATION OF CERTAIN OPTIONAL INGREDIENTS; (B) (1) FIXING TYPICAL DIMENSIONS; (2) FIXING SUBSTANDARD A REASONABLE STANDARD AND ESTABLISHING A REASONABLE STANDARD OF FILL OF CONTAINER; (3) SPECIFYING FORM AND MANNER OF LABEL STATEMENT OF SUBSTANDARD QUALITY; (C) (1) FIXING AND ESTABLISHING A REASONABLE STANDARD OF FILL OF CONTAINER, (2) SPECIFYING FORM AND MANNER OF LABEL STATEMENT OF SUBSTANDARD FILL OF CONTAINER; FOR EACH OF THE FOODS COMMONLY KNOWN AS CANNED PEACHES, CANNED APRICOTS, CANNED PEARS AND CANNED CHERRIES

General Statement

1. In conformity with subsection (a) of Section 701 of the Federal Food, Drug, and Cosmetic Act (Section 701, 52 Stat. 1005; 21 U.S.C. 371 (a)), the Secretary of Agriculture on his own initiative published on March 7, 1939, which appeared on page 1143 of the FEDERAL REGISTER, a notice of a public hearing to be held on April 10, 1939, in the South Ballroom, Twelfth Floor, Raleigh Hotel, Twelfth Street and Pennsylvania Avenue NW, Washington, D. C., for the purpose of receiving evidence upon the basis of which, in pursuance of the authority vested in the Secretary of Agriculture by the provisions of Sections 401, 403 (a), (2), and 403 (b), (1) and (2) (Secs. 401, 403 (a), (2), and 403 (b), (1) and (2), 52 Stat. 1046 and 1047; 21 U.S.C. 341, 342 (a), (2), and 342 (b), (1) and (2)), regulations may be promulgated (a) (1) fixing and establishing a reasonable definition and standard of identity, and (2) requiring the label declaration of certain optional ingredients; (b) (1) fixing and establishing a reasonable standard of quality, and (2) specifying the form and manner of label statements of substandard quality; and (c) (1) fixing and establishing a reasonable standard of fill of container, and (2) specifying the form and manner of label statements of substandard fill of container: for each of the foods commonly known as canned peaches, canned apricots, canned pears, and canned cherries. The notice contained a proposal, in general terms, for defining and standardizing each of such foods. John McDill Fox was designated as presiding officer to conduct such hearing. Thereafter, a public hearing was held at the time and place specified, and John McDill Fox acted as presiding officer. (Government's Exhibit No. 1)

2. At said hearing the presiding officer announced that he would first hold a hearing for the purpose of receiving evidence upon the basis of which a regulation may be promulgated fixing and establishing a reasonable definition and standard of identity for the food commonly known as canned peaches.

3. In pursuance of such announcement a hearing was held for the purpose of receiving evidence upon the basis of which a regulation may be promul-

gated fixing and establishing a reasonable definition and standard of identity for the food commonly known as canned peaches, and continued the hearing with reference to the other proposals, to dates subsequently to be announced.

4. On April 10, 1939, at 10:00 a. m., the hearing on the definition and standard of identity proposal for canned peaches was convened and held on April 10, 11, and 12, and at 5:30 p. m., on April 12, 1939, was adjourned until May 1, 1939, and resumed on May 1, 1939, and concluded on May 2, 1939, at 11:30 a. m. All interested persons were notified, pursuant to the rules of procedure, of their opportunity to file proposed findings of fact and written argument.

5. Within the time announced at the hearing within which interested persons might file proposed findings of fact, written argument, or both, various interested persons filed proposed findings of fact, together with written argument in support thereof, based upon the evidence adduced at the hearing which, if granted, would modify the proposal contained in the FEDERAL REGISTER.

6. Pursuant to the rules of procedure, the presiding officer, therefore, makes this his report and suggests that the Secretary issue the regulation hereinafter set forth and make, on the basis of the substantial evidence of record at the hearing, the findings of fact herein contained as part of the order promulgating and making public such regulation.

Suggested Findings

1. Canned peaches are prepared from mature peaches. (R. pp. 31, 47, 93)
2. Such peaches are of one of the following varietal groups: yellow clingstone, yellow freestone, white clingstone, white freestone. (R. pp. 29, 30, 47, 48, 91, 93)
3. Peaches of different varietal group are not canned together. (R. p. 20)
4. Peaches of each such varietal group are an optional peach ingredient. (R. pp. 35, 45, 91, 93)
5. The word "free" is used synonymously with the word "freestone"; and the word "cling" is used synonymously with the word "clingstone" to designate the varietal group. (R. pp. 118, 119)
6. Such peaches are prepared in one of the following forms of units: unpeeled whole, unpeeled halves, peeled whole, peeled halves, peeled quarters, peeled slices, peeled dice, and peeled mixed pieces of irregular sizes and shapes. (R. pp. 31, 48, 92, 115, 127) Such forms of units are never mixed in canning. (R. pp. 31, 92) Peaches of each such forms of units are an optional peach ingredient. (R. pp. 31, 48)
7. Such peaches, except in the case of whole peaches, are pitted. (R. pp. 31, 48, 92, 93)
8. Canned peaches contain a suitable liquid packing medium. (R. pp. 29, 35, 36, 92) It may be the natural juice of the peach obtained by precooking the peaches so that such juice exudes or it

may be an added liquid. (R. pp. 36, 46, 62.)

9. Water is a suitable liquid packing medium. (R. pp. 36, 46, 92, 120, 121, 133, 135.)

10. The natural juice of the peach is a suitable liquid packing medium. (R. pp. 46, 116, 125, 136, 139.)

11. A water solution of sugar is a suitable liquid packing medium. (R. pp. 37, 38, 43, 63, 93, 150, 183, 214.)

12. Sugar is defined in Webster's International Dictionary on page 2521 thereof (Other Interested Parties' Exhibit No. 4) as:

"1. A sweet crystallizable substance, colorless or white when pure, occurring in many plant juices, and forming an important article of human food—called *saccharose*. The chief sources of sugar are the sugar cane and the sugar beet, the completely refined products of which are identical and form granulated sugar, loaf sugar, etc., of commerce. The cane juice, obtained by expression, is treated with lime to remove impurities, filtered, and evaporated to crystallization. The mother liquor, or molasses, is removed by draining or (now usually) by a centrifugal. The crude yellowish or brown sugar thus obtained is usually refined at central plants by redissolving, clarifying, decolorizing, and recrystallizing. In the case of beets the sugar is removed by extraction with water (diffusion) and carried to the refined state in one operation. Crude cane sugar is often sold as brown sugar, but crude beet sugar has an unpleasant flavor. Some sugar is also made from palm trees, maple trees, etc. Sugar forms fine monoclinic crystals melting at 186° C. (367° F.), which dissolve in about half their weight of water at ordinary temperature. Chemically, it is a disaccharide of the formula $C_{12}H_{22}O_{11}$, formed by union of one molecule of dextrose with one of levulose. It does not reduce Fehling solution and does not ferment directly, but is converted by diastase (or by heating with acids) into the fermentable mixture called *invert sugar*. It is dextrorotatory, a property which is used in estimating the strength of its solutions. Sugar is a food, and also serves as a condiment and preservative for other foods. See Food 1.

"2. By extension, any of a class of sweet, soluble compounds comprising the simpler carbohydrates. See Carbohydrate. The simple sugars, those not decomposable by hydrolysis, are called *monosaccharides*. Complex sugars are formed by the condensation of two, three, or four molecules of simple sugar and are called *disaccharides*, *trisaccharides*, and *tetrasaccharides*. For the structure and classification of simple sugar, see Monosaccharide. Among the important natural sugars are *sucrose* (See def. 1), or *cane sugar*, *dextrose* (*D-glucose*), or *grape sugar*, *levulose* (*D-fructose*), or *fruit sugar*, *lactose*, or *milk sugar*, and *maltose*, or *malt sugar*. Some

of them, and also many others, have been made synthetically."

13. Prior to the hearing, a letter was addressed to the Secretary of Agriculture asking for a definition of the word "sugar" as used in the proposal, which letter was answered under the signature of the Secretary of Agriculture, which answer reads as follows and is Other Interested Parties' Exhibit No. 2:

"We have your letter of March 30 referring to proposals for food standards to be considered at public hearings on April 10, 1939. You inquire as to our interpretation of the words 'Water solution of sugar, of 25° Brix or more' and 'Water solution of sugar, of less than 25° Brix' as used in these proposals.

"The word 'sugar' as used therein refers to sugar as defined in the current advisory definition and standard of identity for sugar under the present Food and Drugs Act, which you will find on page 11 of the enclosed F. D. 2, definition 1, under 'A. Sugar and Sugar Products.' These are merely proposals. The final standards will be based on evidence adduced at the public hearing and any interested party is, of course, invited to submit proposals for other packing mediums."

14. In S. R. A., F. D. No. 2, Rev. 5 (Other Interested Parties' Exhibit No. 3), under "Sugars and Related Substances", the following appears:

"A. Sugar and sugar products.—1. Sugar. Sucrose (saccharose) obtained chiefly from sugarcane and sugar beets. Granulated, loaf, cut, milled, and powdered sugars are different forms of sugar, containing at least 99.5 percent of sucrose."

Under "B. Dextrose and Related Products", the following appears:

"1. Dextrose. The product chiefly made by the hydrolysis of starch or a starch-containing substance, followed by processes of pebbling and crystallization."

"a. Anhydrous dextrose contains not less than 99.5 percent of dextrose and not more than 0.5 percent of moisture.

"b. Hydrated dextrose contains not less than 90 percent of dextrose and not more than 10 percent of moisture, including water of crystallization.

"When derived from cornstarch, dextrose is known commercially as refined corn sugar."

15. Starch is a polysaccharide. Sucrose is a disaccharide. Dextrose and levulose are monosaccharides. (C. R. p. 22.)

16. Polysaccharides such as starch have a higher caloric value per gram than the disaccharides such as sucrose, and the disaccharides have a higher caloric value per gram than the monosaccharides such as dextrose and levulose. (C. R. p. 33.)

17. By the dictionary definition, the simple sugars, monosaccharides, are not

decomposable by hydrolysis. (C. R., Other Interested Parties' Exhibit No. 4.)

18. Sugar, as described in the Encyclopaedia Britannica on page 533 (C. R., Other Interested Parties' Exhibit No. 5), applies to over 100 substances, having distinctive properties and scientific names; for example, sucrose, glucose, fructose, lactose, maltose, etc.

19. "As ordinarily understood, of course, by chemists, and physiologists, sugar is just one of the breakdown products of two other large nutritive ingredients, namely, ordinary starch from plants, and starch from animals. Now as they are digested or hydrolyzed, you get ultimately a double sugar, nutritively it is like cane sugar, or beet sugar, and then when they are inverted, further changed into the form that they are absorbed and actually utilized in the body, we have dextrose and levulose, so that beginning with starch you have the double sugars, maltose and fructose, and then you have the simple sugars, which is the ultimate product.

"There are other forms of sugars that can be utilized by various bacteria, but not by man." (Carlson, p. 159.)

20. Crystalline dextrose manufacture was made commercially possible in 1923 by the granting of the Newirk patents (October 23, 1923; September 16, 1924; January 6, 1925) on corn starch hydrolysis and the economical separation of high purity dextrose from the converter liquors. (Other Interested Parties' Exhibit No. 3.)

21. Not until 1926 was chemically pure dextrose accepted by the United States Pharmacopoeia. (Other Interested Parties' Exhibit No. 3.)

22. Not until 1930, when the Secretary of Agriculture ruled that refined dextrose (corn sugar) could be used in the manufacture of food products without label declaration, was the utilization of dextrose by canners, preservers, beverage manufacturers and allied food industries seriously considered. (Other Interested Parties' Exhibit No. 3.)

23. In 1930, the Secretary of Agriculture ruled:

"Corn sugar (dextrose) when sold in packages must be labeled as such; when sold in bulk must be declared as such; but the use of pure refined corn sugar as an ingredient in the packing, preparation, or processing of any article of food in which sugar is a recognized element need not be declared upon the label of any such product.

"Nothing in this ruling shall be construed to permit the adulteration or imitation of any natural product such as honey by the addition of any sugar or other ingredient whatever.

"The term 'sugar', with or without the parenthetical expression 'sucrose', as used in the definitions to designate the sweetening agent in manufactured food products, is to be interpreted, wherever necessary to effect the purpose of the fore-

same decision, as including dextrose (pure refined corn sugar)."

34. The great bulk of consumers regard "sugar" as the synonym of (white) refined sucrose, i. e., cane or beet sugar. (R. pp. 41, 42, 122, 191, 230, 265, 391, 404, 416, 424, 442, 451, 481, 485, 492)

35. Within the past 2½ years, refined corn sugar (dextrose) has been used in the canning of peaches. (R. p. 276)

36. Prior to that time, cane or beet sugar (sucrose) was the only sugar used in the canning of peaches. (R. pp. 129-200, 273-276, 399, 400, 422, 442, 472); (Other Interested Parties' Exhibit No. 3 and 4)

37. The simple sugar, dextrose, is now obtainable by hydrolysis from corn starch, is called "refined corn sugar" and is now used in combination with cane or beet sugar (sucrose) in a water solution as a liquid packing medium for canned peaches. (R. pp. 199-200, 258, 273) (Other Interested Parties' Exhibit No. 3 and 4)

38. Refined corn sugar (dextrose) and cane or beet sugar (sucrose) differ in sweetness, in food value, in manner of absorption, in solubility, and their solutions differ in viscosity, in osmotic pressure, and in boiling temperature. (R. pp. 68, 87, 174, 175, 227, 250-261, 265, 273-283, 347, 370-371, 398, 427, 469-503, 512-517) (C. R. pp. 21, 22, 52, 53, 54, 55, 56). (Other Interested Parties' Exhibit No. 9) A water solution of refined corn sugar (dextrose) as the liquid packing medium cannot be used alone in the canning of peaches. The maximum amount of refined corn sugar (dextrose) which has been so used for commercial purposes, in combination with cane or beet sugar (sucrose) is 35½% refined corn sugar (dextrose) and 64½% cane or beet sugar (sucrose) of cane and beet sugar (sucrose). (R. pp. 199-200, 268, 276) Refined corn sugar (dextrose) is used in excess of rate of beet sugar (sucrose) being generally regarded as from 50% to 75% as sweet as cane or beet sugar (sucrose). (R. pp. 69-71, 174-175, 217, 260-261, 299, 300, 513-517) Consumers are accustomed to judge sweetness according to that of cane or beet sugar (sucrose). (R. p. 218)

39. Refined corn sugar (dextrose) sold at the open market at a cheaper price than cane or beet sugar (sucrose). (R. pp. 122, 230)

40. Another simple, refined corn sugar (dextrose) is now used in the canning of peaches as well as cane sugar and beet sugar (sucrose), and it will promote honesty and fair dealing in the interest of purchasers to differentiate between the kinds of sugars used in preparing the liquid packing medium of canned peaches. (R. pp. 66-67, 82, 405, 424, 471, 472, 492)

41. A label statement of the origin of sucrose used in preparing such liquid packing medium will promote honesty and fair dealing in the interest of the consumer. (R. pp. 421, 422)

32. The use of the qualifying words "cane sugar", "beet sugar", followed by their chemical name "sucrose", and "refined corn sugar", followed by its chemical name "dextrose", will promote honesty and fair dealing in the interest of the consumer. (R. pp. 41, 42, 57, 58, 71, 100, 103, 126, 131, 132, 163, 228, 239, 404, 423, 450, 453); (C. R. pp. 67-69)

33. A water solution of sugar is used not only as a liquid packing medium but also as a sweetening agent. (R. pp. 72, 163, 172, 174, 175, 231, 266)

34. Such sweetening agent is called sirup. (R. pp. 71, 126)

35. There are four water solutions of cane or beet sugar (sucrose) or cane and beet sugar (sucrose) known as sirups to consumers and used in the industry, to-wit: light, medium, heavy, and extra heavy. (R. pp. 120, 121, 126, 131, 229, 297, 425) It is a customary trade and consumer practice so to distinguish them. (R. pp. 41, 81, 131, 229, 424) Such sirups are measured and distinguished by their specific gravity as determined by the Brix hydrometer. The Brix hydrometer is a reliable instrument for testing specific gravity of liquid solutions and is in general use. (R. pp. 40, 126) A water solution of cane or beet sugar (sucrose) or cane and beet sugar (sucrose) which does not show a reading of 10° on the Brix hydrometer does not sweeten the finished canned peaches sufficiently to be known as a sirup for this food. (R. pp. 132, 125)

36. When such sirups are prepared from cane or beet sugar (sucrose) or cane and beet sugar (sucrose), they have, respectively, the following readings on the Brix hydrometer: not less than 10° and less than 25°, not less than 25° but less than 40°, not less than 40° but less than 65°, and not less than 65°, but when such sirups of equivalent sweetness are prepared from a mixture of cane or beet sugar (sucrose) or cane and beet sugar (sucrose) and refined corn sugar (dextrose), they do not have the above readings on the Brix hydrometer because of the difference in sweetness between refined corn sugar (dextrose) and cane or beet sugar (sucrose). However, the Brix reading of a sucrose sirup equivalent in sweetness to that of any such mixture is obtained by adding the percent by weight of cane or beet sugar (sucrose), or both, in such mixture to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution. Such calculated Brix readings (sucrose equivalents) are identical with the limits above set forth. (R. pp. 41, 71, 120, 121, 131, 132, 136, 138, 230)

37. It is in the fact that in canned peaches which have been prepared with a liquid packing medium consisting of a water solution of cane or beet sugar (sucrose) or cane and beet sugar (sucrose), there will be present in addition to sucrose, due to inversion, levulose and dextrose and that in canned peaches which have been prepared with a liquid packing medium consisting of a water

solution of a mixture of cane or beet sugar (sucrose) or cane and beet sugar (sucrose) and refined corn sugar (dextrose), there will likewise be present sucrose, and due to inversion, levulose and dextrose, the consumer would have no way of telling, from an examination of the finished canned peaches, the optional sugar ingredient used. It will therefore, promote honesty and fair dealing in the interest of the consumer to require a label statement of the optional sugar ingredient used in the preparation of the liquid packing medium. (R. p. 492)

38. The common or usual names of such sirups are light sirup, medium sirup, heavy sirup, and extra heavy sirup, qualified by the name of the kind or kinds of sugar used to make such sirups. (R. pp. 41, 42, 57, 58, 71, 100, 102, 120, 121, 132, 163, 229, 239, 404, 425, 450, 453); (C. R. pp. 67-69)

39. Canned peaches may or may not be seasoned. (R. pp. 29, 44, 45, 48, 99)

40. Spice is a suitable seasoning agent. (R. pp. 44, 48, 92)

41. Flavoring is a suitable seasoning agent. (R. pp. 44, 48, 92)

42. A vinegar is a suitable seasoning agent. (R. pp. 44, 48, 92)

43. Peach kernels are a suitable seasoning agent, except in the case of whole peaches. (R. pp. 44, 48, 62, 93, 123, 128, 129)

44. Peach pits, in limited amounts, are a suitable seasoning agent. (R. pp. 44, 48, 92), except in the case of whole peaches. (R. p. 44) The number of pits suitable for such purpose is limited to not more than one to each eight ounces of finished canned peaches. (R. pp. 45, 143, 144, 407, 408, 411, 416, 417, 422, 437, 441, 466, 467, 487, 488)

45. Such seasoning agents are used singly or in combination, except that peach pits and peach kernels are not used in combination. (R. pp. 45, 92)

46. It is essential that canned peaches be sealed in a container. (R. pp. 46, 48)

47. It is essential to so process canned peaches by heat as to prevent spoilage. (R. p. 46)

48. Honesty and fair dealing in the interest of the consumer requires that the optional peach ingredient, the optional liquid packing medium, and the optional seasoning ingredients be declared on the label. (R. pp. 46, 47, 48, 103, 104, 140, 191, 201, 210, 220, 238, 239, 255, 337, 338, 339, 349, 350, 351, 360, 367, 368, 370, 371, 398, 399, 401, 406, 415, 417, 419, 420, 421, 422, 424, 427, 433, 426, 427, 438, 442, 471, 484, 485, 492); (C. R. p. 69); (Other Interested Parties' Exhibit No. 8a)

49. The common or usual names of the several varietal groups of peaches are yellow clingstone or yellow cling, yellow freestone or yellow free, white clingstone or white cling, and white freestone or white free. (R. pp. 31, 59, 60, 73, 60, 81, 100, 102, 107, 118, 119, 449, 457, 476)

50. The common or usual name of peeled canned peaches is the name of the varietal group and form of unit, without qualifying words, except that "sliced" and "diced" are synonymous and "ice" and "diced" are synonymous. (R. pp. 35, 100, 102)

51. The common or usual name of unpeeled canned peaches is the name of the varietal group and the name of the form of unit, qualified by the term "unpeeled." (R. pp. 115, 127)

52. The common or usual name of water is water. (R. pp. 41, 121)

53. The common or usual name of the natural juice of the peach is peach juice. (R. pp. 48, 116, 128, 138, 139)

54. The common or usual name of sucrose is sugar; and the common or usual name of dextrose is refined corn sugar (dextrose). (R. pp. 53, 61, 177, 18, 351, 367, 372, 373, 397, 398, 404, 416, 4, 461, 465, 510); (C.R. pp. 48, 49, 70); Other Interested Parties' Exhibits Nos. 5, and 9a)

55. The common or usual name of oil used as a seasoning is spice. (R. pp. 46, 101, 102, 125)

56. The common or usual name of flavoring used as a seasoning is flavoring. (R. pp. 46, 101, 102)

57. The common or usual name of a vinegar used as a seasoning is vinegar. (R. pp. 46, 101, 102)

58. The common or usual name of such pit kernels used as a seasoning is such kernels. (R. pp. 46, 103, 123)

59. The common or usual name of such pits used as a seasoning is peach pits. (R. pp. 46, 101, 102, 123, 415)

60. Honesty and fair dealing in the interest of the consumer requires that when spices, flavoring, vinegar, peach pits, or peach kernels are used that the label bear the words "Spiced" or "With Added Spice" or "Spice Added", "With Added Flavoring" or "Flavoring Added", "With Added Vinegar" or "Vinegar Added", "Seasoned with Peach Pits", or "Seasoned with Peach Kernels", as the case may be; but if two or more of such optional ingredients are present, such words may be combined as, for example, "With Added Spice, Flavoring and Vinegar". In lieu of the words "Spice" or "Spiced" and "Flavoring", the common or usual name of the spice or flavoring may be used. (R. pp. 46, 47, 48, 103, 104, 10, 191, 201, 210, 220, 235, 239, 259, 337, 38, 339, 349, 359, 351, 360, 367, 369, 370, 11, 398, 399, 401, 406, 415, 417, 419, 420, 11, 423, 424, 427, 433, 436, 437, 438, 442, 11, 484, 485, 492); (C.R. p. 59); (Other Interested Parties' Exhibit No. 8a)

61. Honesty and fair dealing in the interest of the consumer requires that wherever the name "peaches" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the names of the optional ingredients present shall immediately and conspicuously precede or follow such name, without intervening written, printed, or graphic matter, except that

the specific varietal name of the peaches may so intervene. (R. p. 47)

Suggested Conclusion in the Form of a Regulation

Upon the basis of the foregoing findings of fact, the following reasonable definition and standard of identity for the food commonly known as canned peaches is hereby suggested to be promulgated as a regulation:

127.000 Canned peaches—Identity, label statement of optional ingredients.

(a) Canned peaches are the food prepared from mature peaches of one of the following varietal groups: yellow clingstone, yellow freestone, white clingstone, white freestone. Such peaches, except in the case of whole peaches, are sliced and are in one of the following forms of units: peeled whole; unpeeled whole; peeled halves; unpeeled halves; peeled quarters; peeled slices; peeled dice; peeled mixed pieces of irregular sizes and shapes. Peaches of each such varietal group in each such form of unit are an optional peach ingredient. To one such ingredient is added one of the optional ingredients:

(32) A water solution of cane sugar (sucrose), of not less than 10° Brix but less than 25° Brix;

(34) A water solution of beet sugar (sucrose), of not less than 10° Brix but less than 25° Brix;

(35) A water solution of cane and beet sugar (sucrose), of not less than 10° Brix but less than 25° Brix;

(36) A water solution of cane sugar (sucrose), of not less than 25° Brix but less than 40° Brix;

(37) A water solution of beet sugar (sucrose), of not less than 25° Brix but less than 40° Brix;

(38) A water solution of cane and beet sugar (sucrose), of not less than 25° Brix but less than 40° Brix;

(39) A water solution of cane sugar (sucrose), of not less than 40° Brix but less than 55° Brix;

(40) A water solution of beet sugar (sucrose), of not less than 40° Brix but less than 55° Brix;

(41) A water solution of cane and beet sugar (sucrose), of not less than 40° Brix but less than 55° Brix;

(42) A water solution of cane sugar (sucrose), of not less than 55° Brix;

(43) A water solution of beet sugar (sucrose), of not less than 55° Brix;

(44) A water solution of cane and beet sugar (sucrose), of not less than 55° Brix;

(45) A water solution of cane sugar (sucrose) and refined corn sugar (dextrose) having a cane sugar (sucrose) equivalent of not less than 10° but less than 25° Brix. Such cane sugar (sucrose) equivalent is calculated by adding the percent by weight of cane sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(46) A water solution of beet sugar (sucrose) and refined corn sugar (dextrose) having a beet sugar (sucrose) equivalent of not less than 10° but less than 25° Brix. Such beet sugar (sucrose) equivalent is calculated by adding the percent by weight of beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(47) A water solution of cane and beet sugar (sucrose) and refined corn sugar (dextrose) having a cane and beet sugar (sucrose) equivalent of not less than 10° but less than 25° Brix. Such cane and beet sugar (sucrose) equivalent is calculated by adding the percent by weight of cane and beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(48) A water solution of cane sugar (sucrose) and refined corn sugar (dextrose) having a cane sugar (sucrose) equivalent of not less than 25° but less than 40° Brix. Such cane sugar (sucrose) equivalent is calculated by adding the percent by weight of cane sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(49) A water solution of beet sugar (sucrose) and refined corn sugar (dextrose) having a beet sugar (sucrose) equivalent of not less than 25° but less than 40° Brix. Such beet sugar (sucrose) equivalent is calculated by adding the percent by weight of beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(50) A water solution of cane and beet sugar (sucrose) and refined corn sugar (dextrose) having a cane and beet sugar (sucrose) equivalent of not less than 25° but less than 40° Brix. Such cane and beet sugar (sucrose) equivalent is calculated by adding the percent by weight of cane and beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(51) A water solution of cane sugar (sucrose) and refined corn sugar (dextrose) having a cane sugar (sucrose) equivalent of not less than 40° but less than 55° Brix. Such cane sugar (sucrose) equivalent is calculated by adding the percent by weight of cane sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(52) A water solution of beet sugar (sucrose) and refined corn sugar (dextrose) having a beet sugar (sucrose) equivalent of not less than 40° but less than 55° Brix. Such beet sugar (sucrose) equivalent is calculated by adding the percent by weight of beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution;

(53) A water solution of cane and beet sugar (sucrose) and refined corn sugar

(sucrose) having a cane and beet sugar (sucrose) equivalent of not less than 60° but less than 65° Brix. Such cane and beet sugar (sucrose) equivalent is calculated by adding the percent by weight of cane and beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution:

(54) A water solution of cane sugar (sucrose) and refined corn sugar (dextrose) having a cane sugar (sucrose) equivalent of not less than 55° Brix. Such cane sugar (sucrose) equivalent is calculated by adding the percent by weight of cane sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution:

(55) A water solution of beet sugar (sucrose) and refined corn sugar (dextrose) having a beet sugar (sucrose) equivalent of not less than 55° Brix. Such beet sugar (sucrose) equivalent is calculated by adding the percent by weight of beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution:

(56) A water solution of cane and beet sugar (sucrose) and refined corn sugar (dextrose) having a cane and beet sugar (sucrose) equivalent of not less than 55° Brix. Such cane and beet sugar (sucrose) equivalent is calculated by adding the percent by weight of cane and beet sugar (sucrose) in such solution to two-thirds of the percent by weight of refined corn sugar (dextrose) in such solution:

(57) Peach slices.

(58) Water.

The food may be seasoned with one or more of the optional ingredients:

(59) Spice;

(60) Flavoring;

(61) A vinegar;

(62) Peach pits (except in the case of whole peaches), not more than 1 to each 8 ounces of finished canned peaches;

(63) Peach kernels (except in the case of whole peaches and except when optional ingredient (62) is present). The food is sealed in a container and so processed by heat as to prevent spoilage. The liquid of the finished canned peaches is not more than 35° Brix.

(b) The label shall bear the words "Yellow Glaze" or "Yellow Clingstone", "White Glaze" or "White Clingstone", "Yellow Free" or "Yellow Freestone", "White Free" or "White Freestone", and the word or words "Whole" or "Unpeeled Halves", "Halves" or "Unpeeled Halves", "Quarters", "Slices" or "Sliced", "Diced", "Mixed Pieces of Irregular Sizes and Pieces Present", "Mixed Pieces of Irregular Sizes and Pieces Present". The label shall also bear the words "In Light Cane Sugar (Sucrose) Syrup", "In Light Beet Sugar (Sucrose) Syrup", "In Light Cane and Beet Sugar (Sucrose) Syrup", "In Light

Cane Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Light Beet Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Light Cane and Beet Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Medium Cane Sugar (Sucrose) Syrup", "In Medium Beet Sugar (Sucrose) Syrup", "In Medium Cane and Beet Sugar (Sucrose) Syrup", "In Medium Cane Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Medium Beet Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Heavy Cane Sugar (Sucrose) Syrup", "In Heavy Beet Sugar (Sucrose) Syrup", "In Heavy Cane and Beet Sugar (Sucrose) Syrup", "In Heavy Cane Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Heavy Beet Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Extra Heavy Cane Sugar (Sucrose) Syrup", "In Extra Heavy Beet Sugar (Sucrose) Syrup", "In Extra Heavy Cane and Beet Sugar (Sucrose) Syrup", "In Extra Heavy Cane Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Extra Heavy Beet Sugar (Sucrose) and Refined Corn Sugar (Dextrose) Syrup", "In Peach Juice", or "In Water", showing respectively the presence of optional ingredients (33), (34), (35), (36), (37), (38), (39), (40), (41), (42), (43), (44), (45), (46), (47), (48), (49), (50), (51), (52), (53), (54), (55), (56), (57), or (58), as the case may be. If optional ingredient (59), (60), (61), (62), or (63) is present, the label shall bear the words "Spiced" or "With Added Spice" or "Spice Added", "With Added Flavoring" or "Flavoring Added", "With Added Vinegar" or "Vinegar Added", "Seasoned with Peach Pits", or "Seasoned with Peach Kernels", as the case may be; but if two or more of such optional ingredients are present, such words may be combined as, for example, "With Added Spice, Flavoring and Vinegar". In lieu of the words "Spice" or "Spiced" and "Flavoring", the common or usual name of the spice or flavoring may be used. Wherever the name "Peaches" appears on the label so conspicuously as to be easily seen under customary conditions of purchase, the words and statements herein specified, showing the optional ingredients present, shall immediately and conspicuously precede or follow such name without intervening written, printed, or graphic matter, except that the specific varietal name of the peaches may so intervene.

Time Within Which to File Objections
 Within ten days after the receipt of the copy of the FEDERAL REGISTER con-

taining this report, any interested person who wishes to object to any matter set out in the suggested findings of fact and suggested conclusion in the form of a regulation shall transmit such objection in writing to the Hearing Clerk. At the same time each such interested person shall transmit in writing to the Hearing Clerk a brief statement concerning each of the objections taken to the action of the presiding officer upon which he wishes to rely, referring where relevant to the pages of the transcript of evidence.

Respectfully submitted,

(S.EAL) JOHN McDILL, FOR
 Presiding Officer,

AUGUST 31, 1939.

[F. R. Doc. 99-8332; Filed September 1, 1939; 3:18 p. m.]

CIVIL AERONAUTICS AUTHORITY.

[Docket No. 290]

IN THE MATTER OF THE CERTIFICATION BY THE POSTMASTER GENERAL PURSUANT TO SECTION 401 (b) OF THE CIVIL AERONAUTICS ACT OF 1936 WITH RESPECT TO THE TRANSPORTATION OF MAIL BY AIRCRAFT BETWEEN PITTSBURGH, PA. AIRCRAFT BETWEEN PITTSBURGH, PA. AND BUFFALO, N. Y., BY WAY OF TRIP PA. AND YOUNGSTOWN, OHIO

NOTICE OF HEARING

The Postmaster General having certified to the Civil Aeronautics Authority, pursuant to section 401 (b) of the Act, that the needs of the postal service require the transportation of mail by aircraft between Pittsburgh, Pa., and Buffalo, N. Y., by way of Erie, Pa., and Youngstown, Ohio, a public hearing will be held on September 12, 1939, at 10 o'clock a. m. (Eastern Standard Time) at the Carlton Hotel, 923 16th St. NW, Washington, D. C., before Examiner Francis W. Brown and Thomas L. Wrenn, in order to determine whether such transportation of mail is required by the public convenience and necessity.

Dated Washington, D. C., September 5, 1939.

By the Authority,

(S.EAL) PAUL J. FREEMAN,
 Secretary.

[F. R. Doc. 30-8246; Filed September 6, 1939; 10:10 a. m.]

FEDERAL TRADE COMMISSION.

*United States of America—Before
 Federal Trade Commission*

At a regular session of the Federal Trade Commission held at its office in the City of Washington, D. C., on the 25th day of September, A. D. 1939.

Commissioners: Robert E. Fitch,
 Chairman; Garland S. Ferguson, Charles

J. March, Ewin L. Davis, William A. Aytes.

[File No. 21-250]

IN THE MATTER OF PROPOSED TRADE PRACTICE RULES FOR THE CURLED HAIR INDUSTRY

NOTICE OF OPPORTUNITY TO PRESENT VIEWS, SUGGESTIONS OR OBJECTIONS

This matter now being before the Federal Trade Commission under its trade practice conference procedure, in pursuance of the Act of Congress approved September 26, 1914, as amended (Federal Trade Commission Act), or other applicable provisions of law administered by the Commission;

Opportunity is hereby extended by the Federal Trade Commission to any and all persons, partnerships, corporations, associations, groups or other parties affected by or having an interest in the proposed trade practice rules for the Curled Hair Industry to present to the Commission, orally or in writing, their views concerning such rules, including such pertinent information, suggestions or objections, if any, as they desire to submit. For this purpose they may, upon application to the Commission, obtain copies of the proposed rules. Writ-

ten communications of such matters should be filed with the Commission not later than September 22, 1939. Opportunity for oral hearing and presentation will be afforded at 10 a. m., September 22, 1939, in Room 332, Federal Trade Commission Building, Constitution Avenue at Sixth Street, Washington, D. C., to any such persons, partnerships, corporations, associations, groups or other parties as may desire to appear and be heard. After giving due consideration to all matters submitted concerning the proposed rules, the Commission will proceed to their final consideration.

By the Commission.

[SEAL] OTIS B. JOHNSON,
Secretary.

[F. R. Doc. 39-3248; Filed, September 6, 1939; 9:44 a. m.]

SECURITIES AND EXCHANGE COMMISSION.

United States of America—Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 5th day of September, A. D. 1939.

[File No. 1-251]

IN THE MATTER OF THE APPLICATION OF THE NEW YORK STOCK EXCHANGE TO STRIKE FROM LISTING AND REGISTRATION THE COMMON STOCK \$100 PAR VALUE OF THE WESTERN PACIFIC RAILROAD CORPORATION

ORDER GRANTING APPLICATION

The New York Stock Exchange having applied pursuant to Section 12 (d) of the Securities Exchange Act of 1934 to strike from listing and registration the common stock \$100 par value of The Western Pacific Railroad Corporation; and

A hearing on appropriate notice having been held on said application; the trial examiner having filed an advisory report; the Commission having considered the record and being fully advised in the premises, and having this day filed its findings of fact and opinion herein:

It is ordered, That the application of the New York Stock Exchange be and it is hereby granted effective at the close of business on September 15, 1939.

By the Commission.

[SEAL] FRANCIS P. BRASSER,
Secretary.

[F. R. Doc. 39-3249; Filed, September 6, 1939; 10:54 a. m.]

the President shall proclaim ~~such fact~~, and it shall thereafter be unlawful to export, or attempt to export, or cause to be exported, arms, ammunition, or implements of war from any place in the United States to any belligerent state named in such proclamation, or to any neutral state for transshipment to, or for the use of, any such belligerent state."

AND WHEREAS it is further provided by section 1 of the said joint resolution that

"The President shall, from time to time, by proclamation, extend such embargo upon the export of arms, ammunition, or implements of war to other states as and when they may become involved in such war."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred upon me by the said joint resolution, do hereby proclaim that all of the provisions of my proclamation of September 5, 1939, in regard to the export of arms, ammunition, and implements of war to France; Germany; Poland; and the United Kingdom, India, Australia, and New Zealand, henceforth apply to the Union of South Africa.

And I do hereby enjoin upon all officers of the United States, charged with the execution of the laws thereof, the utmost diligence in preventing violations of the said joint resolution, and this my proclamation issued thereunder, and in bringing to trial and punishment any offenders against the same.

And I do hereby delegate to the Secretary of State the power to exercise any power or authority conferred on me by the said joint resolution, as made effective by this my proclamation issued thereunder, and the power to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out any of its provisions.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington this 8th day of September, in the year of our Lord nineteen hundred and [small] thirty-nine, and of the Independence of the United States of America the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT
By the President:
CORDS HULL
Secretary of State.

[No. 3354]
[F. B. Doc. 39-3286, Filed, September 8, 1939, 1:18 p. m.]

14 F.B. 5610 DL

EXPORT OF ARMS, AMMUNITION, AND IMPLEMENTS OF WAR TO THE UNION OF SOUTH AFRICA *Fed. Reg. 9/4/39*
BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS section 1 of the joint resolution of Congress approved May 1, 1937, amending the joint resolution entitled "Joint resolution providing for the prohibition of the export of arms, ammunition, and implements of war to belligerent countries; the prohibition of the transportation of arms, ammunition, and implements of war by vessels of the United States for the use of belligerent states; for the registration and licensing of persons engaged in the business of manufacturing, exporting, or importing arms, ammunition, or implements of war; and restricting travel by American citizens on belligerent ships during war", approved August 31, 1935, as amended February 29, 1936, provides in part as follows:

"Whenever the President shall find that there exists a state of war between, or among, two or more foreign states,

**REPORT OF ARMS, AMMUNITION, AND IMPLEMENTS OF WAR TO CANADA
BY THE PRESIDENT OF THE UNITED STATES
OF AMERICA**

A PROCLAMATION

WHEREAS section 1 of the joint resolution of Congress approved May 1, 1927, amending the joint resolution entitled "Joint resolution providing for the prohibition of the export of arms, ammunition, and implements of war to belligerent countries; the prohibition of the transportation of arms, ammunition, and implements of war by vessels of the United States for the use of belligerent states; for the registration and licensing of persons engaged in the business of manufacturing, exporting, or importing arms, ammunition, or implements of war; and restricting travel by American citizens on belligerent ships during war", approved August 31, 1925, as amended February 29, 1936, provides in part as follows:

"Whenever the President shall find that there exists a state of war between, or among, two or more foreign states, the President shall proclaim such fact, and it shall thereafter be unlawful to export, or attempt to export, or cause to be exported, arms, ammunition, or implements of war from any place in the United States to any belligerent state named in such proclamation, or to any neutral state for transshipment to, or for the use of, any such belligerent state."

AND WHEREAS it is further provided by section 1 of the said joint resolution that

"The President shall, from time to time, by proclamation, extend such embargo upon the export of arms, ammunition, or implements of war to other states as and when they may become involved in such war."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred upon me by the said joint resolution, do hereby proclaim that all of the provisions

proclamation of September 8, 1938, in regard to the export of arms, ammunition, and implements of war to France; Germany; Poland; and the United Kingdom, India, Australia, and New Zealand, henceforth apply to Canada.

And I do hereby enjoin upon all officers of the United States, charged with the execution of the laws thereof, the utmost diligence in preventing violations of the said joint resolution, and this my proclamation issued thereunder, and in bringing to trial and punishment any offenders against the same.

And I do hereby delegate to the Secretary of State the power to exercise ~~any~~ power or authority conferred on me by the said joint resolution, as made effective by this my proclamation issued thereunder, and the power to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out any of its provisions.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington this 10th day of September, in the year of our Lord nineteen hundred and [SEAL] thirty-nine, and of the Independence of the United States of America the one hundred and sixty-fourth.

FRANKLIN D. ROOSEVELT

By the President:

COWELL HULL

Secretary of State.

(No. 3360)

[F. R. Doc 39-3325; Filed, September 11, 1933; 12:37 p. m.]

September 6, 1979.

REGULATION CONCERNING CREDITS TO BELLIGERENTS

Section 3 of the joint resolution of Congress approved May 1, 1977, reads in part as follows:

"Sec. 3. (a) Whenever the President shall have issued a proclamation under the authority of section 1 of this Act, it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent state or of any state wherein civil strife exists, named in such proclamation, or of any political subdivision of any such state, or of any person acting for or on behalf of the government of any such state, or of any faction or asserted government within any such state wherein civil strife exists, or of any person acting for or on behalf of any faction or asserted government within any such state wherein civil strife exists, issued after the date of such proclamation, or to make any loan or extend any credit to any such government, political subdivision, faction, asserted government, or person, or to solicit or receive any contribution for any such government, political subdivision, faction, asserted government, or persons. Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its citizens, he may, in his discretion, and to such extent and under such regulations as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. Nothing in this subsection shall be construed to prohibit the solicitation or collection of funds to be used for medical aid and assistance, or for food and clothing to relieve human suffering, when such solicitation or collection of funds is made on behalf of and for use by any person or organization which is not acting for or on behalf of any such government, political subdivision, faction, or asserted government, but all such solicitations and collections of funds shall be subject to the approval of the President and shall be made under such rules and regulations as he shall prescribe.

"(b) The provisions of this section shall not apply to a renewal or adjustment of such indebtedness as may exist on the date of the President's proclamation.

"(c) Whoever shall violate the provisions of this section or of any regulations issued hereunder shall, upon conviction thereof, be fined not more than \$50,000 or imprisoned for not more than five years, or both.

Should

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Should the violation be by a corporation, organization, or association, each officer or agent thereof participating in the violation may be liable to the penalty herein prescribed."

I hereby find that it will serve to protect the commercial and other interests of the United States and its citizens to exempt from the operation of Section 3 of the joint resolution of Congress approved May 1, 1937, as made applicable to Germany and France, Poland, and the United Kingdom, India, Australia and New Zealand by the Proclamation of the President of September 5, 1937 issued under the authority of Section 1 of such joint resolution, ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions; and they are therefore hereby exempted.

I hereby authorize the Secretary of the Treasury to administer the provisions of this regulation and to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out such provisions.

This regulation shall continue in full force and effect unless and until modified, revoked, or otherwise terminated, pursuant to law.

(s) FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

September 6, 1939.

COPY

REGULATION CONCERNING CREDITS TO BELLIGERENTS

I hereby prescribe that the provisions of my regulation of September 6, 1939, concerning credits to France; Germany; Poland; and the United Kingdom, India, Australia and New Zealand shall henceforth apply equally in respect to credits to Canada and the Union of South Africa.

(s) **FRANKLIN D ROOSEVELT**

THE WHITE HOUSE

September 11, 1939.

PROPOSED PRESS RELEASE

"A policy of encouraging banking and business houses to continue a normal international short-time credit business within the scope of the Neutrality Act was recommended to Secretary Morgenthau by an Advisory Committee which he has formed to assist the Treasury in carrying out its functions under section 3 of the Neutrality Act. This section of the Act governs credit transactions between persons in the United States and governments of belligerent states, or their agents. President Roosevelt on September 6, and 11, 1939, approved regulations permitting certain types of credit accommodations and authorizing the Secretary of the Treasury to administer the provisions of the regulations. To assist in the work Secretary Morgenthau designated Under Secretary Hanes to head an Advisory Committee composed of the representatives of the State, Commerce and Treasury Departments.

"The Committee recommended to Secretary Morgenthau that the President's regulations be administered with the least possible disturbance to those ordinary peacetime business transactions which are permitted by the regulations. No general regulations were suggested by the Committee at this time but the Committee recommended that persons seeking guidance on particular transactions should be requested to submit their questions to the Treasury Department through the Federal Reserve banks, which will act as fiscal agents of the United States in this connection.

"The Committee also suggested that attention be called to the types of transaction which the Neutrality Act specifically excludes from its prohibitions, for example, the renewal or adjustment of credits existing on the date of the issuance of the proclamation respecting a belligerent, and the purchase, sale, or exchange of obligations issued prior to the date of the proclamation. These exemptions are in addition to the one which was ordered by President Roosevelt in his regulations, which apply to ordinary commercial credits for, or short-time obligations of, the governments of belligerent states, provided these credits or obligations are in aid of legal transactions and are of a character customarily used in normal peacetime financing."

September 13, 1939
2:29 p.m.

HMJr: Hello.

Captain
Collins: Good afternoon, Mr. Secretary.

HMJr: Hello, Captain. Did the word get to you that the President said if it was possible he'd give another 10 million? Ah -- create a deficiency for these.....

C:

HMJr: Yeah.

C: Well, I -- I've -- I've heard three or four figures. That's the first time I've had a definite.....

HMJr: Ten. No, I -- he said if he could do it legally he'd do it.

C: Yes, sir. I talked with Danny yesterday.

HMJr: Yeah.

C: Danny Bell.

HMJr: Yeah.

C: And he talked of trying to go in the market for the whole hundred. Well, of course, I've step-laddered now up for a full ten.

HMJr: Well, the President said another ten.

C: Another ten, sir.

HMJr: Now, would you keep after Danny and the Director of the Budget and -- the President said he'd get out -- if he could do it legally he'd do it to create a deficiency.

C: Yes, sir. Well, I've taken that up with this man Dikes, you know, sir, that we brought in from the General Accounting Office.

HMJr: Oh.

G: And he feels that we have no right to go into.....

HMJr: Oh.

G:the market for any more than we have money for.

HMJr: Oh. Well, let me know as soon as you know whether we can or cannot.

G: Yes, I shall. Mr. Secretary.....

HMJr: Yeah.

G:on that foreign critical material, I've been trying to get a ready figure concerning the amount of bonded minerals in the country.

HMJr: Yeah.

G: Which is not readily available.

HMJr: Yeah.

G: But this is the thought, it is not my affair really, but I was wondering if any steps might be taken that would prevent the bonding material we have from trickling out of the United States.

HMJr: Yeah.

G: Of course, that's a matter that I can't control here.

HMJr: No. Write me a little memo on it.

G: I -- I shall, sir.

HMJr: Thank you.

G: Thank you, sir.

HMJr: You're welcome.

September 13, 1939
3:08 p.m.

Operator: Go ahead.

HMJr: Hello.

Cy
Upham: Yes, sir.

HMJr: Cy, I saw on the ticker what action the Bank of America has taken.

U: Yes, sir.

HMJr: Now, when will you be ready to make a report to me? Tomorrow morning when Tom Smith is back?

U: Well, you mean as to what to do?

HMJr: Yeah.

U: Ah -- yes. I'd like to talk to Tom first. I called you as soon as I heard and I assumed that you got the ticker also.

HMJr: I didn't get the message.

U: Sir?

HMJr: I did not get the message that you called.

U: Oh. I asked the operator to let you know that I had called. We also had a wire from Irwin Wright telling us about it.

HMJr: Right. Well then, as soon as you're ready tomorrow morning will you talk to me?

U: Surely.

HMJr: Thank you.

U: Thank you.

GROUP MEETING

September 13, 1939.
9:30 a.m.

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

H.M.Jr: I've got a report here from Haas on this sugar situation which I asked him for yesterday morning at the cool hour of 7:30, and in this thing you will notice he says, "In the interim the Treasury will therefore gain in revenue the difference between collections on this tax - 65 million - and the expenditures for the administration of the Act."

The administration expenditures were estimated at 75 million for the fiscal year '39, and 48 million for the fiscal year '40. I would like to know if number one - did Mr. Wallace just close down the sugar administration? And how much did we gain by it? On a thing like that, does the bureau that administrated sugar just shut it down? I think we should let the public know that 45 million expenditures still means something to the administration. I don't think it would shock anybody.

Bell: The administrative expenditures outlined here - 55 million - include benefit payments. The larger part of it is benefit payments.

Haas: For '39 I think there will be benefit payments.

Bell: But the benefit payments would go out and probably the administrative expenditures of a small force would just go on until such time as they determined whether it was out permanently or whether it would come back next year.

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H.M.Jr: Could you find out?

Bell: Yes, sir.

H.M.Jr: Also, Hanes is doing a job on revenue estimates and all that. A thing like that would come in. I mean, I would like just to be brought up to date. I would like to know on a thing like that just what happened.

And another thing I see, "U. S. Speeding Work on Great Merchant Fleet, 18 Ships Launched." I ought to know, but I don't know how that is financed. Where did they get their money from?

Bell: Does that mean the Navy or the Merchant Marine?

H.M.Jr: Maritime Commission.

Bell: The Maritime Commission has about 180 million dollars appropriations and they can construct those ships or they can make loans to corporations for the payment of construction of those ships, and there have been a number of ships launched under that program, and I think this is speeding it up.

H.M.Jr: Will you take a look at that?

Bell: Yes. That was started two years ago.

H.M.Jr: Is this just publicity?

Harris: It is a ten-year program, Mr. Secretary.

H.M.Jr: Are they running ahead of schedule?

Harris: Yes.

H.M.Jr: But not much?

Harris: Not much. They are making 50 boats a year for ten years.

H.M.Jr: I have a bad throat and I have to see Dr. McIntyre at 10:00, so I postponed Jones' meeting to 10:30. Mr. Hanes and Mr. White and Baillie and Foley will meet with Jones at 10:30 and see what he has got to say, see? I want to keep it down to a minimum.

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Is that all right with you, Randolph?

Burgess: Yes, I think that is very wise.

H.M.Jr: John?

Hanes: I tried to get the Attorney General interested in that letter which you signed, asking him for an opinion. I am going to take that over there this morning some time, maybe after this 10:30 meeting.

H.M.Jr: Well now, on that thing, I signed those twelve letters to the Federal Reserve presidents on this credit. Will also somebody send it over to the Federal?

Is there anything else, John?

Hanes: We have got a revenue matter. You were supposed to sign the mimeograph. Inadvertently, it got in my papers and I signed it as Acting Secretary.

H.M.Jr: Anything else?

Hanes: That is all.

H.M.Jr: Riefler?

Riefler: No.

H.M.Jr: Did you fellows get a place to sleep all right?

Riefler: Oh yes, we are sleeping.

H.M.Jr: I don't mean in the daytime.

Viner: We don't need a place to sleep at night.

H.M.Jr: I will bite, why, Mr. Viner?

Viner: Because we have plenty of space in the daytime.

Duffield: Just before I came in here I was talking to a lawyer in Revenue who handles these closing agreements, like the steel case. I was trying to check up on a report that something was going to happen on the steel case so that we could announce it, but that is evidently not true,

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but in the course of the conversation he told me that they were getting a lot of inquiries now from other contractors or potential contractors and that the word seemed to be filtering around. That sort of thing always disturbs me a little bit for two reasons: it seems to me that when it goes by grapevine that it doesn't give all interested parties an equal chance; and, secondly, that it may get out from an outside source with the implication that because we didn't say anything about it, there is something shady about it or mysterious, or whatnot.

H.M.Jr: What is your suggestion?

Duffield: Well, in view of those things, I wanted to ask you whether you would reconsider your decision not to say anything about it at all until one of those cases is closed.

H.M.Jr: Another alternative is to get out a press release describing the machine. Just get out a press release describing the machinery, the Bureau and everything.

Hanes: And not refer to the steel case.

Duffield: No.

Hanes: That might be well to do. The Army - Louis Johnson told me he had two more cases that he was going to take up with me on Monday of this week. I told him we were ready to talk to him any time he wanted to talk.

H.M.Jr: This is a question the Treasury has passed on. Why don't you get up a press release in the name of the Treasury describing what this machinery is, show it to Mr. Hanes, show it to me, and if it is all right just give it out.

Hanes: There is one thing that Charlie Edison asked us before we made any release to let them have a look at it, and I told him we would.

Duffield: Oh yes. I sent this first one down there saying it was still tentative.

H.M.Jr: Well, just describing the machinery as an implication to people who are potential or actual contractors

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for the Army and Navy or Governments, not using the steel company at all. That would take care of it.

Duffield: I will do that.

H.M.Jr: Just give it out in the name of the Treasury.

Duffield: Yes.

H.M.Jr: As far as I am concerned, just let Hanes see it and get it out. I don't want to see it again.

Ed?

Foley: Here is a memorandum from me (re silver purchases in Canada).

H.M.Jr: Should I or shouldn't I?

Foley: There is no legal compulsion. It is the Neutrality law.

H.M.Jr: It is a question of renewing our contract to purchase. We have a monthly contract to purchase silver from Canada. It is a question as to whether we should or should not.

Foley: Here is a memorandum containing excerpts from the bill of particulars given by counsel for Rudolf Hecht in that Universal Trading Corporation.

H.M.Jr: All right.

Foley: Under the statute authorizing construction of the library at Hyde Park, you, as the Secretary of the Treasury, are required to approve the amount to be reimbursed by the building branch - by the library to the building branch for architectural and engineering services, and this is a letter approving \$13,500, which is the amount fixed by John Carmody and agreed to by the library.

H.M.Jr: I am slipping when I sign things for \$13,000.

Foley: Here is a proposed letter to the Attorney General for the Acting Comptroller of the Currency's signature, giving the Attorney General the facts in

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regard to the insurance - self-insurance plan, asking him to take such action.

H.M.Jr: Has Hanes seen that?

Foley: No.

H.M.Jr: I would like him to read it and then I want the Comptroller to sign it himself, if he approves it. Has Tom Smith seen it?

Foley: No.

H.M.Jr: I would like Hanes or Tom Smith to see it.

Foley: The only people that have seen it are the lawyers, and they didn't initial it, and it is for the Acting Comptroller's signature.

H.M.Jr: On this thing, I want the Comptroller to sign it himself if he approves it. I mean somebody can take it out - don't you agree?

Hanes: Yes.

H.M.Jr: Well, I mean it is up to the Comptroller to sign it.

Anything else?

Foley: Nothing else.

H.M.Jr: But I would like to, if you approve of it, I would like it to go out tonight by airmail to the Comptroller. I am having to do it to protect him.

White: He will understand that.

H.M.Jr: Harry?

White: Before you left there was some correspondence with the Government of Canada with respect to a conference on handling of securities in the event of war. They replied that they would be very glad to participate in the conference and it should be in Washington.

Since we received the letter, war has been declared, and we are wondering now whether if we go forward

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with that conference it might not have other implications.

H.M.Jr: Suppose we let the "Six" see it.

White: Johnny just asked about it.

Hanes: There is a fellow named Draper, of Dillon, Read, who brought a letter in that apparently - I think the letter was....

White: That is a separate matter.

Lochhead: I think it was addressed to one of the partners of Dillon, Read. It was one of the men in the Ministry up in Canada addressed an appraisalment letter to a man in Dillon, Read.

Hanes: I got Archie and White to think a little before I brought it up to see whether or not we wanted to do anything at all about it, because apparently this man in Canada, who was the Comptroller of the Currency or has some such official title in Ottawa, was asking this gentleman a lot of questions about the tying the Canadian Exchange to the dollar. My first hunch was that we should say nothing, that it seems the proper way to do it is through the State Department and not through some private individual. I said we would say nothing and I thought we would give no answer, but I thought you ought to know about it because the Canadian Government....

White: There is some factual information there that we can give that is available to everybody, but those other questions that he asked, obviously there are no answers to them.

Viner: Was it an official letter or a personal letter? You see, the Canadian Minister is very sick at the moment and so he obviously has....

Lochhead: Private letter.

H.M.Jr: White brought up - what I wanted the special advisers to see was this correspondence between the Minister of Finance of Canada and myself, and then after you take a look at that, then Hanes, White and I would like to sit down and talk to you about it.

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- Hanes: These questions interested me and I would like to know - I would like to see the "Six" get to work on these questions because they are interesting questions and they do bring up a question that is going to come to us officially, although this is unofficial. I think the questions are coming and it seems to me that we ought to begin settling the questions; whether we are going to give an answer to this fellow or not is neither here nor there, but whether we ought to have the answers is another thing.
- H.M.Jr: Is it agreeable to you to throw it at the "Silent Six"?
- Burgess: "Sleepless Six."
- Harris: "The Slippery Six."
- Baillie: This is a very dangerous game. We had better stop playing it.
- H.M.Jr: Do you think it has gone far enough?
- White: You might be interested to know that McGrady in replacing Sayre in the Executive Committee on Commercial Policy, is full of ambition and worthy ambition and is going to make a little more of it. They are going to extend the membership, I think, to include possibly War and maybe one or two other services, and they are undertaking a very comprehensive report as to the effect of the war on credit, et cetera. There is nothing of importance yet. You probably have noticed that England is selling, in the reports announced the last couple of days, securities, not a great deal, about a million or so, but that the net movement is this way even on securities during the past week, and I got a copy of a letter that was sent by the National City Bank to Mr. Burgess which Mr. Baillie asked for. I don't know whether he mentioned it, but it might be in some point this morning, making a spot check from the Bank's point of view and Bank's information on the exchange situation in Latin America, and it merely supports what Baillie said yesterday, that there is no acute situation except to a minor degree in two countries, Peru and Brazil. The

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rest of the countries seemed to be a little better off and their bonds are a little bit higher, so there is no immediate acute situation.

- Baillie: They think they are going to have a boom. That is the psychology behind what happened in the markets.
- Viner: Mr. Secretary, I suggest you ask Mr. Baillie to ask this correspondent of his to repeat that letter weekly. He could very well do that. It is a good survey and it is better service, I guess, than anybody else here has.
- Baillie: What Mr. Burgess and I are going to try to do is see if we can't bring together the most important facts of that sort from various places, and we could bring it in to this meeting if it would interest you.
- H.M.Jr: Certainly. Just so nobody feels hurt, I am going to walk out of here at five minutes of ten to get my throat fixed.
- Smith?
- Smith: Nothing.
- H.M.Jr: Viner?
- Viner: Getting better.
- H.M.Jr: Who won on the matching last night?
- Viner: I am on the wagon, so I am not matching. I wouldn't win anything.
- H.M.Jr: George?
- Haas: I have nothing of importance. The reporting companies that sent in to you the new order figures are beginning to collect now this new situation. One of them ordered right off our chart, an all-time high.
- H.M.Jr: Write his name on a piece of paper and give it to me. We have these 26 and 27 companies and I have

- 10 -

always kept it very secret what they are used for.

Harris?

Harris: (Nods nothing).

H.M.Jr: Bailie?

Bailie: I had a long report yesterday from the textile industry of the amount of business done last week and the week before. They are in boom conditions, and usually booms are followed by difficulties. I think one ought to recognize that that type of excited buying....

Viner: Arithe absence of booms also causes difficulties.

H.M.Jr: That is marvelous. We will chalk that up for the best today.

Archie?

Lochhead: England had a short position of about 75 million dollars. They are liquidating that by shipping gold from Canada. They told us yesterday they were about 100 short, not 75, so there is about 100 million of gold coming every day from Canada, about 13 or 15 million in a lot.

Burgess: How could they be 100 million short of dollars?

H.M.Jr: Since the first of January they have been averaging short about 50 million. There is one period they recovered, but they have been short on an average about 50 million dollars.

Mr. Burgess?

Burgess: The Government market has opened very quiet. The Government had bids in. I should say the first response of the people down on Constitution Avenue was not very satisfactory. I think we can well afford, however, to judge them on their acts rather than their - what they say, and I will keep in touch with that and report back if there seems to be anything else.

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H.M.Jr: Harold?

Graves: This regulation Mr. Hanes referred to is simply a mimeograph which we consolidated and will make permanent the separate orders approved by yourself, setting up these field divisions of the technical staff for the settlement of income and state tax cases. There is one change of importance which I think you ought to notice. It has to do with the withdrawal of cases in the field for settlement here. Up to the moment you have reserved that to yourself. This regulation, should it be issued, gives the Commissioner the authority under certain restrictions to withdraw cases from the field and dispose of them under his personal direction, and as to cases before the Board of Tax Appeals, it would give joint authority to the Commissioner and the Chief Counsel of the Bureau to similarly dispose of them.

H.M.Jr: Why change it?

Graves: Well, as a matter of fact, the question is largely....

Hanes: It is academic.

Graves:largely a moot question at this time. There is no pressure whatever for withdrawal of cases and this regulation does require this further, that in the event the Commissioner or the Chief Counsel should withdraw a case, they shall report especially to you their reasons for withdrawal.

H.M.Jr: Why change it?

Graves: Well, I am proposing to change it because Mr. Helvering and Mr. Wenchel both have felt very strongly that they should have such authority, but I see now no reason for withholding it.

H.M.Jr: Let it simmer. Anybody hurt if I don't sign it right now?

Graves: Yes, the other changes that are made here are....

Hanes: There is one very important one.

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H.M.Jr: Well now, Harold, I am fighting time to go to the doctor. I will see you later about it.

Hanes: You had better have that other sheet that I signed inadvertently.

Graves: I will.

H.M.Jr: Have you started on Procurement?

Graves: No, I am waiting for....

H.M.Jr: You don't need to wait for that.

Bell: I have a letter here transmitting the draft of that Executive Order direct to the Budget to enlarge the facilities of the Coast Guard. I don't think it is necessary, neither with the War and Navy order, if we wanted some publicity about it. I think you ought to know that they are asking for a forty-five hundred increase whereas the President approved one thousand increase.

H.M.Jr: The President wanted a thousand men.

Bell: I understand that he wants 4500 men within the next twelve months.

H.M.Jr: Well, let's ask for 4500 men and see what the President does.

Bell: The State Department has a cable from the Minister in Riga, Latvia, saying that it is almost impossible for him to sell dollar drafts. The last one he sold he got 91 cents for, that being in Stockholm.

H.M.Jr: Wiley?

Bell: Yes. He wants 20 thousand dollars in American currency shipped to him. They say in the State Department that he is inclined to get a little bit excited at times.

H.M.Jr: If it is Wiley, he is one of the best men in the service. Ask Harold what he did for us in Belgium on alcohol.

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Bell: The only question I would have would be the amount. It seems a little large.

H.M.Jr: What do you recommend?

Bell: I would wait for a recommendation from the State Department before doing anything, but if nobody has any objection I will go ahead on a program on this thing. We will probably get several requests before it is over.

H.M.Jr: Tom?

Smith: I have nothing.

H.M.Jr: Thompson?

Thompson: Nothing here.

SEP 13 1939

Mr. L. A. Simon,
Acting Commissioner of Public Buildings,
Federal Works Agency,
Public Buildings Administration,
Washington, D. C.

Dear Mr. Simon:

Receipt is acknowledged of your letter of September 8, enclosing correspondence between the Federal Works Administrator and the Franklin D. Roosevelt Library, Inc., setting forth an arrangement pursuant to which it is contemplated that the Public Buildings Administration of the Federal Works Agency render architectural, structural and mechanical engineering services in connection with the proposed Franklin D. Roosevelt Library. It is noted that the Federal Works Administrator and the Library Corporation have agreed that the necessary supervision be supplied by the Public Buildings Administration and that the Library Corporation reimburse the Administration for costs incurred in connection therewith to the extent of \$13,500, exclusive of travel and subsistence expenses. This will advise that the suggested plan of reimbursement is satisfactory to us.

Very truly yours,

(Signed) H. Morgenthau, Jr.

JJO'C,Jr/Lsw
9-8-39

Secretary of the Treasury.

September 13, 1939.

My dear General Pershing:

It gives me great pleasure to extend my warmest congratulations to you upon your birthday. In common with all your friends I have been delighted to know of your complete return to health.

During the past difficult days the thoughts of many have turned to you with a sense of loyalty and affection that I am sure you must have realized. May the coming year bring you all good things.

Sincerely,

(Signed) H. Morgenthau, Jr.

General John J. Pershing,
Walter Reed General Hospital,
Georgia Avenue at Butternut, N.W.,
Washington, D. C.

GMV/dbs

Howell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 13 1939

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information -

I have selected the following few excerpts from the response made to a Demand for a Bill of Particulars in the action Rudolf Hecht has brought against the Universal Trading Corporation in which I thought you would be particularly interested.

In response to a request for the names of the attorneys and experts retained by the plaintiff and for the manner in which the loan was furthered by their employment, the following reply was made:

"4. (a) The attorneys retained by plaintiff in furtherance of this loan were:

- "(1) Arthur Garfield Hays;
- "(2) Basil O'Connor;
- "(3) Jerome I. Ziegler.

"The associates who assisted the plaintiff were:

- "(1) Louis de l'Aigle Munds;
- "(2) Fred Fisher;
- "(3) Samuel Feldman.

"(b) As is customary in matters of this type, the representative of the foreign government, in this case Ambassador C. T. Wang, was in constant communication with and advised by one directing member of the group, in this case the plaintiff herein. The plaintiff, furthermore, retained and associated himself with such attorneys and other people of prominence that the matter, when it was to be submitted to the Government of the United States, would be received in the most favorable light possible. In addition to all of the work done by plaintiff, the following matters were handled by the parties above-named:

"(1) Arthur Garfield Hays, retained from the very inception of the negotiations because of his many years of experience in

international negotiations and financial matters, rendered advice to the plaintiff, Ambassador Wang, and W. Carl Richards, as to the procedure to be followed and the steps to be taken. Hays arranged conferences between Harvey Gibson, Henry C. van Elm other representatives of the Manufacturers Trust Company and representatives of the Government of the Republic of China. In addition, Hays conferred with an Ambassador of the United States to a European country, who in turn conferred with Dr. Wellington Koo, Ambassador of the Government of the Republic of China to the Republic of France. In addition, Hays secured the active cooperation of Louis de l'Aigle Munds. His office and office facilities were at the disposal of and used by representatives of the Government of the Republic of China.

"(2) Basil O'Connor established the link between the group serving Ambassador Wang and the official representatives of the Government of the United States. He kept Ambassador Wang and W. Carl Richards informed as to the progress made of the loan or credits, and advised them as to what steps to take in coordination with his own efforts. Because of the great weight of his personal prestige when the matter was submitted to the representatives of the Government of the United States, it was favorably received. He personally pressed the successful conclusion of the loan upon the President and the Secretary of State of the United States.

"(3) Jerome I. Ziegler acted throughout as attorney and advisor to plaintiff. His office and office facilities were continuously at the disposal of and used by plaintiff, his associates and the representatives of the Chinese Government.

"(4) Louis de l'Aigle Munds established the connection with and secured the cooperation of Fred Fisher and Basil O'Connor. In addition, Munds met continuously with representatives of the Chinese Government and advised them on financial matters. Munds carried the great burden of entertaining and social activity, and it was at his house that the meeting between Basil O'Connor and the new Chinese Ambassador, Dr. Hu Shih, took place for the purpose of assuring the new Ambassador of the continued cooperation of the group which had served the old Ambassador.

"(5) Samuel Feldman, a close friend of Fred Fisher and Frank Murphy, then Governor of Michigan, now Attorney-General of the United States, secured the cooperation of these two men. In addition, he helped to keep the group informed of the progress of the loan.

"(6) Fred Fisher actively cooperated with the group and with Ambassador Wang when the time came to present the matter to the Government of the United States. Because of the great weight of his prestige and his close friendship, when the matter was submitted to Jesse Jones, President of the Reconstruction Finance Corporation, it was assured of Mr. Jones' favorable and careful attention and probable approval. Fisher also kept the group and Ambassador Wang informed of the progress made."

In response to a request for the names of each and every person from whom Mr. Hecht, his associates, and their attorneys secured cooperation, consent, and approval to the consummation of the loan and how this was done, the following reply was made:

"8. (a) and (b).

- "(1) Franklin D. Roosevelt, President of the United States;
- "(2) Cordell Hull, Secretary of State of the United States;
- "(3) Henry W. Morgenthau, Jr., Secretary of the Treasury of the United States;
- "(4) An Ambassador of the United States to a European country;
- "(5) Attorney-General Frank Murphy;
- "(6) Jesse Jones, President of the Reconstruction Finance Corporation.

"(c) As has been outlined above, the matter was presented to and urged upon the President and the Secretary of State by Basil O'Connor.

"The matter was also submitted for the approval of an Ambassador of the United States to a European country by Arthur Garfield Hays, in order that no European diplomatic obstacles should arise, unknown to the group, to interfere with the consummation of this loan.

"The favorable attention of Jesse Jones was secured through the efforts of Fred Fisher. In turn, Mr. Jones obtained the favorable reaction of Secretaries Hull and Morgenthau.

"Attorney-General Frank Murphy, through the intervention of Fred Fisher and Samuel Feldman, urged these credits from a purely domestic viewpoint.

"(d) Had any of these representatives opposed the granting of these credits, this loan had little chance of being approved. With all of these persons interested in bringing this loan about, it was hastened and closed with practically no delay. Without this complete cooperation, the matter might have dragged along indefinitely."

In response to a request for the names of each and every person alleged to have requested on behalf of the Government of the United States a financial mission of the Government of China for the purpose of working out the details of the loan and the time when and manner in which such request is alleged to have been made, the following reply was made:

"12. Henry W. Morgenthau, Jr. requested of Ambassador Wang to have the Chinese Government send over a financial mission to work out the details of the loan. This request was made in the first week of September, 1938. The exact date and place of such request are unknown to plaintiff."

The reply to the Demand for the Bill of Particulars does not give all of the particulars asked for and Mr. Lawrence Morris and Mr. C. O. Donahue have under consideration, at the present time, the advisability of making a demand for further particulars.

E. N. F. L.

MEMORANDUM OF CONFERENCE
Meeting in Secretary's Office,
September 13, 1939,
Between the Secretary, Mr. Jones and Mr. Welles.
RE: PANAMA CONFERENCE

(Messrs. Hanes, Bailie, Feis,
Foley, White, Cochran and Cot-
ton, present.)

1. Prior to the arrival of Mr. Welles and Dr. Feis, the Secretary explained to Mr. Jones that the proposal emanating from the White House and the Department of State as to what the United States should sponsor at the Panama Conference in the matter of financial collaboration had been put up to the Treasury a few days ago in the form of the attached original draft resolution. The Secretary said that at a meeting last night with Dr. Feis, it was made clear that loans, as distinct from secured stabilization operations in accordance with Stabilization Fund precedent, would not be made out of the Stabilization Fund. He understood Feis to say that Mr. Jones had told him the RFC could do something to give the Export-Import Bank additional lending power. He also understood Feis to say that no definite sums would be mentioned at Panama in connection with what the United States might do and that the intention was to get along as best we might with existing funds until Congress could be asked for additional money for the Export-Import Bank at the next regular session.

Mr. Jones said that he had been approached in this matter and had suggested to Feis a revision of the statement which it was proposed that Mr. Welles should make sponsoring the resolution, because he thought that the original submitted to him constituted an open invitation to a request for loans which we are not in a position to make.

The Secretary and Mr. Jones agreed that the revised statement, as per the attached draft, met this objection and it was approved.

Mr. Jones said he would like to explain the position of the RFC in connection with Latin American loans. The RFC would prefer not to take over paper from the Export-Import Bank except in an emergency, but rather, in view of statements Mr. Jones had made to Congress, make such loans as would be possible directly. He however wants the Export-Import Bank to negotiate such transactions even if the money comes from the RFC. He said that the RFC, if allowed to do things in its own way, could do all the business that would be advisable during the next few months.

2. After the arrival of Mr. Welles and Dr. Feis, the Secretary said that the Treasury was glad to see the Panama Conference take place and

- 2 -

would do all it properly could to cooperate. He indicated approval of the statement to be made by the United States representative in sponsoring the resolution, as per the attached draft suggested by Mr. Jones, and suggested changes in the resolution on the ground that we were not sure what funds are available for United States financial assistance in Latin America; said he understood the intention was to go to Congress for additional funds and that it would be embarrassing to create the impression that funds were available in advance aside from some thirty to forty millions which Mr. Jones might be able to supply over the next four months. He suggested that, if Congress were later approached, it might be practicable to get authorization for the transfer of the remaining balance of some \$110 millions, of the original \$130 millions set aside out of the gold profit by the Gold Reserve Act of 1934 in the hands of the Federal reserve banks for industrial loans, for use in Latin America.

3. The revised statement and the revised resolution were agreed to. It was also agreed that no definite sums as to what the U. S. might make available should be mentioned at Panama.

JPC, JR:BJ

(ORIGINAL DRAFT RESOLUTION)

WHEREAS:

The disruption of peace in Europe may be expected to result in a dislocation of the normal channels of trade of the American Republics and thereby to affect monetary and commercial relationships among the American Republics; and

It is important to attain collaboration among the American Republics in giving consideration to the problems thus created and to the measures which it may be found appropriate to take for their mutual advantage,

The Governments of the American Republics

RESOLVE:

First:

To create an Inter-American Advisory Committee with the functions:

a. Of considering any problem of monetary relationships, foreign exchange management, or balance of international payments situation which may be presented to it by the Government of one of the American Republics, and of offering its recommendations to that Government; and

b. Of providing a means of exchange of information regarding such problems among the Governments of the American Republics.

The Advisory Committee shall consist of five members elected by the Governments of the twenty-one American Republics, who shall be persons of acknowledged experience and competence in monetary and exchange matters, and,

in

- 2 -

in the case of the consideration of a problem involving any Government or Governments, a delegate representing each directly interest Government.

Second:

To invite the Governments of the American Republics to be prepared to make available funds for the management of monetary and commercial relationships among the American Republics. Problems relating to requests for the extension through these funds of facilities for the management of particular situations may be presented to the Advisory Committee for consideration and recommendation by any directly interested Government.

Each individual Government shall retain complete power of decision as to whether to provide funds for the aforesaid purposes and over their employment in accordance with any agreements for cooperation or assistance that may be reached between the individual Governments.

(REVISED DRAFT RESOLUTION)

WHEREAS:

The disruption of peace in Europe may be expected to result in a dislocation of the normal channels of trade of the American Republics and thereby to affect monetary and commercial relationships among the American Republics; and

It is important to attain collaboration among the American Republics in giving consideration to the problems thus created and to the measures which it may be found appropriate to take for their mutual advantage,

The Governments of the American Republics

RESOLVE:

First:

To create an Inter-American Advisory Committee with the functions:

a. Of considering any problem of monetary relationships, foreign exchange management, or balance of international payments situation which may be presented to it by the Government of one of the American Republics, and of offering its recommendations to that Government; and

b. Of providing a means of exchange of information regarding such problems among the Governments of the American Republics.

The Advisory Committee shall consist of five members elected by the Governments of the twenty-one American Republics, who shall be persons of acknowledged experience and competence in monetary and exchange matters, and,

in

- 2 -

in the case of the consideration of a problem involving any Government or Governments, a delegate representing each directly interested Government.

Second:

To invite the Governments of the American Republics to be prepared to discuss the most appropriate way of providing for the stability of monetary and commercial relationships among the American Republics.

(REVISED DRAFT STATEMENT)

September 12, 1939

The United States Government wishes to cooperate with all other American Republics in the efforts of each Republic to develop the resources of its country, and when desired, to assist them in obtaining credit by making available to them the services and facilities of its privately owned banking system, as well as its Government agencies when the latter have funds available for such purposes.

In financing current matters, it is expected that only short-term credits would be requested, but in the purchase of rail and mill equipment, heavy goods, et cetera, longer term credits appropriate to the circumstance would be required; also it is recognized that war conditions may shift certain international trade currents and these will need to be taken into account.

Department of State

BUREAU
DIVISION

EA

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

TREASURY

10:10 am

54



DEPARTMENT OF STATE
WASHINGTON

September 13, 1939.

My dear Mr. Secretary:

I enclose a copy of a draft statement suggested by Mr. Jesse Jones. This is a redraft of a very preliminary statement that I put before him yesterday and an improvement on the original draft, I think. It is all still completely in the formative stage.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Draft.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

SEP 13 1939

RECEIVED

COPY

September 12, 1939

The United States Government wishes to cooperate with all other American Republics in the efforts of each Republic to develop the resources of its country, and when desired, to assist them in obtaining credit by making available to them the services and facilities of its privately owned banking system, as well as its Government agencies when the latter have funds available for such purposes.

In financing current matters, it is expected that only short-term credits would be requested, but in the purchase of rail and mill equipment, heavy goods, et cetera, longer term credits appropriate to the circumstance would be required; also it is recognized that war conditions may shift certain international trade currents and these will need to be taken into account.

-2-

in the case of the consideration of a problem involving any Government or Governments, a delegate representing each directly interested Government.

Second:

To invite the Governments of the American Republics to be prepared to consider the most practical and satisfactory ways of providing for the stability of monetary and commercial relationships among the American Republics.

correct copy
J.M.H.



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

SEP 13 1939

My dear Mr. Secretary:

The question has arisen whether, without violating section 599 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1599), the Commissioner of Customs may hold stock in a corporation which owns certain vessels. It is understood that the number of shares held does not constitute a controlling interest in the corporation and that the Commissioner is not an officer or director in the corporation. It is my opinion that he may hold such stock without violation of section 599.

Section 599 of the Tariff Act of 1930 provides:

"No person employed under the authority of the United States, in the collection of duties on imports or tonnage, shall own, either in whole or in part, any vessel, or act as agent, attorney, or consignee for the owner or owners of any vessel, or of any cargo or lading on board the same; nor shall any such person import, or be concerned directly or indirectly in the importation of, any merchandise for sale into the United States. Every person who violates this section shall be liable to a penalty of \$500."

The first question which must be determined is whether the phrase "shall own, either in whole or in part" refers to a stockholder's interest in the property of the corporation.

It is, of course, well settled that the corporation, not its stockholders, owns the corporate property.

"While the stockholders are interested, of course, in the property of the corporation, they are not the owners thereof in any legal sense; the corporation, and it alone, is the owner." Fletcher, Corporations, (1917 ed.) sec. 35. (Underlining supplied.)

"The title to the property of a company is in the fictitious entity called the 'corporation' and, if all the stock were owned by a single person, he could not by his conveyance affect the legal title." Buffalo Loan, Trust and Safe-Deposit Co. v. Medina Gas & Electric Light Co., (N.Y. 1900) 58 N.E. 505, 507.

"These general principles sufficiently establish the doctrine that the owner of all the capital stock of a corporation does not, therefore, own its property, or any of it, and does not himself become the corporation, as a natural person, to own its property, and do its business in his own name. While the corporation exists he is a mere stockholder of it, and nothing else." Button v. Hoffman, (Wis. 1884) 20 N.W. 667, 668.

Thus, a stockholder who owns substantially all the stock of a corporation, nevertheless, does not have sufficient interest in the property of the corporation to convey legal title. Palmer v. Ring, (N.Y. App. 1906) 99 N.Y.S. 290. Similarly, the owner of all the capital stock of a corporation is not the legal owner of the corporate property so as to entitle him to maintain replevin in his own name. Button v. Hoffman, (Wis. 1884) 20 N.W. 667, 668. Likewise, a suit against a corporation the stock of which is wholly owned by the United States is not a suit against the United States. Sloan Shipyards v. United States Fleet Corp., (1922) 258 U.S. 549.¹

A conveyance of property to a corporation the stockholders of which are exclusively negroes is not a conveyance to a person or

1. In the question here involved, it is not necessary to decide whether ownership by the Commissioner of all or substantially all the stock of a vessel owning corporation is a violation of section 599 of the Tariff Act of 1930. That question is specifically not decided. The cases regarding complete stock ownership are inserted merely to show how firmly established is the rule that the stockholders of a corporation do not own the corporate property.

persons of African descent. People's Pleasure Park Co. v. Bohleder, (Va. 1908) 61 S.E. 794. A corporation in which an alien owns a majority of the stock may lawfully hold title to real estate even though an alien may not. Princeton Mining Co. v. First National Bank of Butte, (1888) 7 Mont. 530. Contra: Frick v. Webb, (N.D. Cal. 1922) 281 Fed. 407, 408. In Regina v. Arnoud, (1846) 16 L.J. Q.B. (N.S.) 50, it was held, under a statute restricting the registry of vessels to those belonging to British subjects, that a vessel belonging to a British corporation was entitled to registry even though some members of the corporation were foreigners. But cf. Daimler v. Continental Tyre and Rubber Co., [1916] 2 A.C. 307 (House of Lords).

A problem similar to the one involved in the interpretation of the phrase "own, either in whole or in part" was presented in United States v. Delaware & Hudson Co., (1909) 213 U.S. 366, 413. The Hepburn Act made it unlawful for any railroad company to transport in interstate or foreign commerce "any article or commodity * * * which it may own in whole or in part, or in which it may have any interest direct or indirect * * *." It was held that that statute did not prohibit a railroad company from transporting articles "manufactured, mined, produced, or owned by a bona fide corporation in which the railroad company was a stockholder".

An example of a statute the purpose of which is similar to section 599 is found in section 243 of Rev. Stat. of 1873 (U.S.C.

- 4 -

title 5, sec. 243), which provides that no person appointed to the office of Secretary of the Treasury "shall directly or indirectly be concerned or interested in carrying on the business of trade or commerce". The question arose whether the late Andrew Mellon was disqualified from holding the office of Secretary of the Treasury because of his ownership of stock in a large number of corporations. It appeared that Mr. Mellon had ceased to be an officer or director in any of them or to give his attention to the active conduct of their business prior to assuming office. It was ruled by the Attorney General that the mere ownership of stock in those corporations did not make Mr. Mellon directly or indirectly concerned or interested in carrying on the business of trade or commerce, and that he was, therefore, not rendered unqualified by that section to hold that office. (1929) 36 Op. Atty. Gen. 12, 16-19.

In determining whether the phrase "own, either in whole or in part" refers to a stockholder's interest in the property of a corporation, it should be remembered that section 599 of the Tariff Act is a criminal statute and, as such, must be strictly construed. With that in mind and in view of the authorities holding that a stockholder's interest in the property of the corporation is not an interest of ownership, it would seem that the Commissioner of Customs, in the situation under discussion, would not be violating the provisions of section 599.

Section 599 is derived from the Act of March 2, 1799, 1 Stat. 695. As the Attorney General stated in the last-cited opinion:

"It may be that at the time of their enactment the Congress did not contemplate the present widespread use of the corporate form and therefore did not have in mind situations such as the one now presented."

Moreover, that section was enacted into the Rev. Stat. of 1873 as section 2638 and has been repeatedly reenacted in subsequent tariff acts. In such reenactments Congress has not seen fit to enlarge the scope of the act.

Your attention is invited to a letter from Mr. McReynolds, Administrative Assistant to the Secretary, quoted in Customs Personnel Circular No. 220, November 15, 1937, in which it was stated that there is no legal prohibition against the mere ownership of stock by a customs officer in a steamship company. However, he stated that such stock ownership should be avoided as a matter of policy. My opinion, of course, is predicated solely upon legal principles.

In arriving at my opinion, I have not overlooked the conclusion of the Solicitor of the Treasury, dated May 9, 1916, which reaches a contrary result; with that conclusion I am unable to agree.

The facts presented do not involve the use of the corporate device to evade fraudulently or in bad faith the requirements of section 599.

- 6 -

In view of the authorities which I have discussed, it is my opinion that the mere ownership of stock by the Commissioner in such a corporation does not constitute a violation of section 599.

Very truly yours,

E. W. Foley Jr.
General Counsel.

The Honorable

The Secretary of the Treasury.

RECORDED BY LW 5 14

RECEIVED BY DIVISION
GENERAL

MJD

PLAIN

LONDON

Dated September 13, 1939.

Rec'd. 3:18 p. m.

Secretary of State,
Washington.

1631, September 13, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

As forecast in No. 645 of May 9, 6 p. m., the British Government has now taken powers for establishing a totalitarian system for the prosecution of the war. Within a week of the declaration of war these powers reach far beyond those gradually acquired over the four years 1914-18. Moreover the methods and aims envisaged for the use of these powers encompass in their external aspect alone a far wider and more complex scope of activity which can but have much more far reaching effects upon neutral countries and particularly upon the United States. In the given circumstances of the moment any attempt to see the picture as a whole can only be based partly on fact and partly on conjecture but it seems worth while to try to predict as far as possible the main objectives and to envisage the technique that will be attempted. In the first place though Great Britain may now be described as

a

MJD -2- No. 1631, September 13, 6 p. m. from LONDON

a state with full totalitarian powers it cannot be described as a state with a totalitarian administration because (A) the parliamentary mechanism for protest is still able to function. For example Leith-Ross told me in confidence that he has been advocating a direct tax on wages to be collected at source and had been informed that Parliament would not stand for it. In totalitarian Germany the concentration camp as an administrative weapon functions. (B) The various emergency powers are at present being administered by different departments working empirically and as yet with little coordination. In Germany there is a machine for the control of trade, industry, finance, etc. which is based on a coordinated organization with a hierarchy of command. Furthermore the usual and natural British method of harmonizing the endeavors of different public bodies through the personal relations of their various administrators is at the moment disrupted because of the creation of new departments, manned by personnel half of which are drawn from outside the civil service, housed in improvised quarters without adequate facilities. British economic policy as in 1914-18 will have the twofold purpose of (A) obtaining essential supplies with the least possible cost in terms of Britain's foreign exchange

MJD -3- No. 1631, September 13, 6 p. m. from LONDON.

exchange resources, and (B) the diversion of supplies from Germany, use will again be made of Britain's control of shipping, and of wartime agreements with neutral countries designed to limit the supplies they will furnish to Germany. In negotiating these agreements Great Britain has the advantage of a feature of the present situation which is in contrast to that of 1914, namely that Germany now starts the conflict short of foreign exchange, and must therefore endeavor to obtain additional supplies by over-drawing her credits with neutral countries as her capacity to export is curtailed by her military effort. Emphasis will therefore be placed in British policy on further undermining Germany's export trade. Every means is being explored of bringing pressure to bear on neutrals to render them reluctant to allow Germany to overdraw her clearings with them. The general aim is to bring Germany to a point where if she must obtain more than a certain amount of supplies from contiguous neutrals she will have to resort to force and thus widen her military front. A new and interesting technique lies in the opportune possibilities which the younger brains of the Ministry of Economic Warfare see in the plans for large purchases of Empire and other supplies of important commodities which the Ministry of Supply and the Food Control Department are considering.

MJD -4- No. 1631, September 13, 6 p. m. from LONDON.

considering. These departments are faced with the necessity of obtaining essential supplies without exhausting Britain's foreign exchange resources (the Ministry of Supply have already taken over the whole Australian wool clip for example) with a view to using the surplus beyond Britain's own needs for the obtaining of other products on the most advantageous terms. The Ministry of Economic Warfare see in such a policy the means of obtaining control of a large proportion of world supplies of some important commodities, centering their sale in London and possibly also using them in barter deals or compensation arrangements which would increase Britain's power of preventing supplies from going to Germany direct and of undermining Germany's export trade by exchanges with neutral countries for products which they might furnish to Germany. Incidentally Anglo-French buying is to be carefully coordinated. These examples provide a glimpse of the magnitude and ramifications which British economic policy is likely to encompass. The task of coordinating the effort is obviously tremendous. The raw materials will be allocated to British industry by the various agencies handling their control; the Treasury will allocate the foreign exchange and the new capital which may be issued; the military departments, through the Ministry of Supply, will have priority in materials and manpower; and the Ministry of Food and the Ministry of Supply will be engaged in
large

MJD -5- No. 1631, September 13, 6 p. m. from LONDON.

large commodity transactions and the Board of Trade will control the exports and imports. The Ministry of Economic Warfare, however, must have recourse to many of the controls in the hands of other agencies to further its objectives. There is as yet no one person who is relieved of other duties whose sole function is to coordinate the efforts of the various departments. Therefore it is impossible to assess the speed with which the economic and financial policies as a whole will be crystalized. But certain implications are apparent. The urgency of need and the availability of supplies will of course make for large purchases in the United States market but two factors will certainly operate against this and a third factor may or may not. (1) The British (and French) desire to conserve their free foreign exchange resources as much as possible. For example the British Treasury has instructed the British tobacco companies to cease purchases of American tobacco. (2) Strategic purchases in markets contiguous or near Germany and Italy either (A) to prevent such supplies reaching Germany or (B) to increase political leverage through rectification of the balance of payments. For example attempts are being made to purchase large quantities of lead from Yugoslavia and dried fruits from Turkey. (3) Shipping, which involves the whole question of the availability and safety of ships under submarine warfare conditions, the length of the haul and whether or not a ballast voyage is involved.

HPD

KENNEDY

9229 / 1 6:29

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PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 1934
OF SEPTEMBER 13, 1939, FROM THE AMERICAN EMBASSY, PARIS

This morning the Bank of France is quoting 176.50 as the buying rate for sterling, and 176.75 as the selling rate; 43.70 is the buying rate for the dollar, and 43.90 the selling rate.

Reference is made to telegram No. 1780 of September 5 from the Embassy. It is our understanding that at the present time the stock exchange authorities are much opposed to any plan to move from the City of Paris; therefore, it is possible that the general move southward will be postponed. At all events, it is the plan of Reynaud and the key officials of the Ministry of Finance and of the Bank of France to stay in Paris, as has been previously indicated.

END OF MESSAGE.

BULLITT.

EA:LWW

RECEIVED

SEP 13 1939

THE AMERICAN EMBASSY
PARIS, FRANCE
RECEIVED AT 11:00 AM

Confidential

69

EXCERPT FROM MEETING IN SECRETARY MORGENTHAU'S OFFICE

April 13, 1939 -- 4:00 pm

Present:

Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Bernstein
Mr. Foley
Mr. Eccles
Mr. Harrison
Mr. Knoke

* * * * *

Mr. Harrison: Before the Munich crisis we made a complete survey in the New York banks of the 1914 versus the 1938 situation.

The one thing we felt we needed definitely in New York, in the light of past experience, was to have a bankers' committee to which I might go in any hurry upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do. The banking community agreed definitely that I should have such a committee -- call it advisory committee or a market committee or a contact committee. There was some difference of opinion as to how it should be organized, but nevertheless the principle was agreed to. We dropped it merely because of the Munich appeasement, as it was called, I understand.

At that time I discussed with the principal banks in New York the whole question of the bond market for one thing, the foreign exchanges, and the question of foreign balances. I think there is no question that they would be all definitely willing and glad to do anything that they legally can within their rights. And if I set up such committees, as I had planned yesterday to do today if I had been in New York, all I would have to do would be to put up any question I want to to the committee and let them do the dirty work. That's the way I'd rather do than call them up, as you say, at 2:00 o'clock in the morning.

* * * * *

MJD

PLAIN

RIGA

Dated September 13, 1939.

Rec'd. 1:35 p. m.

Secretary of State,
Washington.

139, September 13, 6 p. m.

Latvian Government yesterday enacted "article one of credit law supplemented: if exchange rate English pound vis a vis dollars or Swedish crown fluctuates more than five per cent comparable rate September 29, 1936, Bank Latvia shall adopt necessary measures stabilize lat level answering needs Latvia's economic life on basis either gold or some stable currency."

Today dollar selling 535 buying 545 lats.

WILEY

RR

RECEIVED

SEP 14 1939

TREASURY DEPARTMENT
Office of the Secretary
Washington, D. C.

MJD

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 DEPARTMENT OF THE TREASURY
 OFFICE OF THE ASSISTANT SECRETARY
 INTERNATIONAL DEPARTMENT

SEP 14 1939

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GRAY

PARIS

Dated September 13, 1939.

Rec'd. 3:26 p. m.

Secretary of State,
 Washington.

1939, September 13, 7 p. m.

FOR THE TREASURY.

We understand that the four American banks here are to be "approved" as "intermediaries" to deal with the foreign exchange office immediately, a move which has, of course, pleased them greatly. Pound and dollar rates quoted this morning by the Bank of France were not changed during the day. The bank is also now buying United States banknotes at 43 and sterling notes at 176.

Profit taking on the securities market was well absorbed today and most leading issues, particularly industrials, showed some improvement. There were signs that the market is confident and broadening out. Rentes were fractionally lower with the exception of the 1925 and 1937 exchange guaranty issues which continued to gain.

The Bank of France invoiced to the Federal Reserve Bank today by the SS PRESIDENT ROOSEVELT 6 ingots of gold valued at 3,629,424 francs, the first shipment for over three months.

BULLITT

KLP

STRICTLY CONFIDENTIAL

No. 5004

Paris, September 15, 1939.

Subject : Transmitting Memoranda
from Dr. Wellington Koo
concerning financial problems.

The Honorable

The Secretary of State,
Washington, D. C.

Sir :

I have the honor to report that I and a member of my staff had several conversations, on his initiative, with Dr. Wellington Koo, Chinese Ambassador to Paris, shortly prior to the outbreak of hostilities. These conversations were largely concerned with Chinese financial difficulties and possible American assistance, and culminated in Dr. Koo's handing to me a memorandum dated August 29. A copy of this memorandum is enclosed. Dr. Koo informed me that it was based on a cablegram received by him on August 28 from General Chiang Kai-shek, who had discussed the questions treated therein with Dr. Heng.

It . . .

It will be observed therefrom that the memorandum envisages (1) the purchase of and immediate payment for 500 million ounces of silver for later delivery at a price of \$70,000,000; (2) a new \$50,000,000 credit of the Import-Export Bank for the purchase of gold in the United States; and (3) a purchase of 50,000 tons of tin from China valued at \$50,000,000. I, of course, gave Dr. Koo no assurance whatsoever that the wishes of the Chinese Government in this connection could be satisfied.

There is also enclosed as of possible interest an earlier memorandum handed to me by Dr. Koo on August 17.

Respectfully yours,

William C. Bullitt

In quintuplicate.

Enclosures:

1. Memorandum dated August 29, 1950.
2. Memorandum dated August 17, 1950.

WCB/jr

Enclosure No. 1 to Despatch No. 5004 of September 15, 1939,
from the Embassy at Paris.

Ambassade de Chine

Paris

Memorandum

With reference to the memorandum of August 17th, 1939, on the question of possible financial aid to China, it will be useful, with a view to facilitating its study and consideration, to supplement it with a few details communicated in a cablegram from Chungking received last evening.

(1) With regard to the suggested idea of purchasing another 200 million ounces of silver from China amounting to U.S.\$70,000,000 at 35 cents per ounce, it is proposed that the purchase price be paid in one instalment upon the conclusion of the purchase agreement, and that the silver be delivered in five equal annual instalments of 40 million ounces each.

(2) The desired new credit of U.S.\$50,000,000 from the Import-Export Bank will be used to purchase gold in the United States, and the purchased gold will be left in the United States on deposit as part of the specie reserve for the Chinese national currency. This credit will be repaid in ten annual instalments. For the first four years the interest will be paid, but beginning with the fifth year to the end of the tenth year the total

amount . . .

amount of the credit will be amortized in twelve equal instalments. The Bank of China and the Bank of Communications will guarantee the repayment of this credit and will hold themselves jointly responsible for its repayment. If the American authorities do not accept the guarantee of these two banks, it is suggested that they designate certain agricultural and mineral products of China to be shipped and delivered to the United States over a period of years in order to repay the principal and interest of this proposed credit.

(3) As to the suggested purchase of 30,000 tons of tin from China valued at approximately U.S.\$55,000,000, it is desired that U.S.\$50,000,000 be paid to China in one instalment. On the Chinese side, this tin will be shipped and delivered completely in five years from the date of agreement, the said delivery to be distributed as follows :-

1st year	5,000 tons
2nd year	7,000 "
3rd year	10,000 "
4th year	13,000 "
5th year	15,000 "

The said tin will be supplied from the mines in the two Provinces of Yunnan and Kwangai, the production of which will be increased in quantity and improved in quality by equipping them with additional mining machinery and facilities for refining. All machinery and material for such purposes will be purchased in the United States;

and . . .

and if foreign technical experts are to be employed, American experts will be given the first option as a token of sincere, reciprocal cooperation.

August 29th, 1950.

Enclosure No. 2 to Despatch No. 5004 of September 15, 1939,
from the Embassy at Paris.

Blockade of China
Paris

Memorandum

The military situation in China has become a stalemate which, in the opinion of the Chinese High Command, is impossible for the Japanese Army to overcome without sending heavy reinforcements from Japan. Such a move would, however, put an excessive strain upon the reserves of manpower which the Japanese military authorities must conserve in order to be able to meet any emergency on the Manchurian frontier. This is the principal reason why Japan now refrains from launching new offensives against the Chinese armed forces and seeks instead to consolidate her control in the territory under military occupation.

In order to achieve this purpose, she is bringing increasing pressure to bear upon China and foreign rights and interests by resorting to diplomatic and economic maneuvers. The blockade of the British and French Concessions in Tientsin is really intended to compel the British to withdraw their support of the Chinese national currency and to accept the notes of the Japanese sponsored Federal Reserve Bank of North China. If this objective is attained, the Japanese will not only be able to eliminate one of the remaining emblems of Chinese authority in the occupied territory but also to control more effectively the flow of foreign trade in favor of Japanese.

Through . . .

10
78

Through currency control they hope to be able to monopolize the Chinese market for Japanese goods and to divert the exportable raw materials to Japan.

Moreover, if the circulation of the Japanese sponsored bank notes is facilitated by the elimination of the Chinese national currency in the occupied territory, it will practically mean a continual levy of forced loans upon the Chinese people since the notes used by the Japanese to purchase from the Chinese people all sorts of supplies are neither supported by adequate reserves nor redeemable in cash. At bottom, it is an attempt to make the occupied territory pay for the needs of the army of occupation and thereby relieve the pressure upon Japan's finances at home. This is the policy by which Japan hopes to be able to carry on her war of aggression against China indefinitely.

The recent severe drop in the value of the Chinese dollar, though producing no visible effect upon the morale of the armed forces may, if unchecked, affect the spirit of the Chinese people in general, especially in the occupied territory. It may serve to weaken their passive resistance against the circulation of the Japanese sponsored money and impair their confidence in the power and authority of the Chinese National Government.

For these reasons, it is essential, in the view of the Chinese Government, to adopt prompt measures to maintain the Chinese national currency. To this end, it may be suggested to constitute a new stabilization fund of

85 million dollars U.S. currency, or approximately 17 million pounds sterling. At the rate of eight cents or four pence per Chinese dollar, it will be equivalent to about one billion dollars in Chinese national currency. It is believed that a fund of such strength will be amply sufficient to defend the Chinese dollar against any serious raids by Japanese or other speculators.

It is hoped that this fund may be constituted by an American contribution of 50 million dollars or approximately 10 million pounds, a British contribution of five million pounds, and a French contribution of two million pounds. The Chinese Government has approached the British Government for this second contribution of five million pounds, and the matter is now under consideration at London. The French Government, as a result of negotiations during the past months, holds two hundred million francs ready to be paid over to the proposed stabilization fund as soon as it is decided to be constituted, and it is hoped that the French contribution may be increased to an equivalent in francs of two million pounds.

As regards the desired American assistance, it is hoped that it may be found possible to grant it by one of the following ways :

(1) The American Government Treasury to agree to purchase approximately 200 million ounces of silver from China to be delivered over a period of years and to

advance . . .

advance immediately the total purchase price to be used for constituting part of the proposed stabilization fund.

(2) The American Import and Export Bank to grant to China a new credit of 50 million dollars to be used for financing the purchase of gold for the said stabilization fund.

(3) The American Government to agree to buy 50,000 tons of tin from the Chinese Government to be delivered 10,000 tons a year over a period of five years at the prevailing price of, say, 230 pounds sterling, or U.S.\$1,100, per ton. The proposed quantity of 50,000 tons would have a value of \$5 million U.S. dollars. Out of this sum 50 million dollars might be used for part of the stabilization fund, and five million dollars for buying machinery and employing American tin mining experts to improve the methods of mining and to increase the production.

In this connection it may be interesting to give some data regarding the tin production in China. The following figures show the annual export of tin from Yunnan Province alone :

1933-1934	7000-8000 tons
1935	10,105 "
1936	12,345 "
1937	16,000 " (estimated)

It . . .

It may be further pointed out that the above figures represent the amount of tin exported abroad from China and do not include what was sold in the Chinese market. While Yunnan Province is the principal source of tin production, Kwangai Province has also begun to export tin abroad since 1936. Besides, tin is also found and produced in the Provinces of Kwangtung and Hunan, though the output there is not large at present.

The present methods of mining tin in Yunnan, however, are primitive and wasteful. It is therefore confidently expected that with the use of machinery and expert technical guidance the annual production could be increased to 25,000 tons a year without difficulty. The figure of 25,000 tons is suggested since it will provide 10,000 tons for delivery to the United States Government without affecting normal export trade in tin to other countries.

August 17, 1939.

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OCT 4 1939

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

For Office of the Treasury.....

W. R. Nicholson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA.

Shanghai, September 13, 1939.

JAPANESE VIEW POSSIBILITY OF ANGLO-JAPANESE PACT

The Abe Cabinet is working to improve Japan's relations with Great Britain with a view to making a new Anglo-Japanese treaty, but the army is working to destroy British interests in China by taking advantage of the European war in complete disregard of the Cabinet's intentions. The Abe Cabinet, acting in accordance with the wishes of the Elders, civil group, and financiers is not seeking any non-aggression pact with Soviet Russia, as suggested by Germany, but prefers friendship with Great Britain hoping that through her medium Japan may win the sympathy and financial cooperation of America in her development of China. She realizes that she can not afford to antagonise America at the present time.

Great Britain is extremely worried over the possibility of a Japanese pact with Soviet Russia. The latter country wants to win Japan over for a joint stand against Great Britain's interests in the Far East. To avoid a Russo-Japanese pact, Great Britain is doing much to satisfy Japan such as (1) handing over of the four assassination suspects in Tientsin, (2) allowing Japanese representatives to check the silver dollars in Chinese banks in Tientsin, (3) giving up extra-Settlement road areas in Shanghai to Japanese control, (4) seeking a compromise with Japan regarding the International Settlement of Shanghai instead of transferring it to American control as originally decided in the event of British withdrawal, (5) having Hongkong authorities notify the various Chinese Government officials now functioning in Hongkong including Gen. Wu Teh-chen, former Chairman of the Kwangtung Provincial Government, to cease their anti-Japanese activities and leave the Colony at an early date, (6) having Hongkong authorities withdraw from the area of Kowloon adjoining the Chinese region, called New Terri-

tory (新界) which is similar in nature to the extra-Settlement area of Shanghai, (7) re-opening the Anglo-Japanese conference in Tokyo.

All these friendly gestures shown by Great Britain to Japan are steps toward a compromise with the latter. As most of the members of the Abe Cabinet are inclined toward an Anglo-Japanese pact, the possibility of such a compromise is very likely.

OCT 18 1939

Division of
Monetary Research

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September 14, 1939

My dear Mr. President:

In reply to your inquiry regarding production of quinine in Peru, I am pleased to send you herewith Captain Collins' memorandum on the subject. (9-11-39)

Sincerely yours,

The President,
The White House.

Sept. 14, 1939

FOR THE SECRETARY:

There are some aspects of the foreign exchange mix-up today which seem to me to come within the scope of my office.

It has seemed to me that an indisputable and inflexible rule of the conduct of this office should be that no information which the Treasury has or which is secured on the Treasury's behalf should be given to interested parties who can benefit by that information before it is given to the general public. I do not believe that this rule should be relaxed merely because the persons who can profit by the information happen to be serving on some quasi-public committee.

Therefore, I was considerably disturbed about the manner in which the New York reserve bank people handled the information on sterling. In effect, they gave the information to a "preferred list" of bankers who did not release it to the public until most of the resultant increase in the market was over. At the same time that these privileged bankers were being given this information in New York, representatives of general news agencies who were inquiring at the Treasury about the dip in sterling were being denied all information.

I know that you do not approve of this procedure any more than I do, but I hope you will not let the New York people put you in this position again. If this story happens to get out (persons who sold sterling under \$4.02 and who now find it was worth \$4.02 may talk to reporters), the New York people will have put us in a most untenable spot.

ESD

TREASURY DEPARTMENT

86

INTER OFFICE COMMUNICATION

DATE September 14, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Export-Import Bank Italian Credits.

The Bank now has outstanding lines of credit to finance cotton shipments to Italy, guaranteed by Italian Banks, to the extent of about \$2½ millions, of which about \$1½ millions at the present time has not been used. The State Department has recently received advices that the Italians intend to avail themselves to the full extent of this unutilized balance within the next few days, and have requested that consideration be given to the extension of further credits. The State Department intends to make a noncommittal reply.

Under the terms of the credit lines, the unutilized balance could be cancelled on 15 days' notice.

J.P.C.

see meeting 9/13/39 at 11:20 am
for reply

September 14, 1939

87

MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE SECRETARY OF THE TREASURY

I understand that you have expressed apprehension at the fact that quotations for sterling in New York have appeared at a figure some 18¢ below the controlled price. It would be over-optimistic to expect that with exchange control in operation the formation of a black market can be altogether prevented. We have in fact met requirements for dollars in London of Americans freely and we assume that sterling on offer in New York must be sterling offered by other neutrals whose demand we were not ready to meet in full or by speculators.

We should be glad of any information you can obtain as to the size of amount on offer. We have assumed here that small amounts are being offered on a thin market.

To prevent such transactions altogether it would be necessary either for us to meet all demands for dollars from all neutrals which we are not in a position to do or alternatively to put complete block on every sterling account owned by foreigners in London.

This would inter alia mean that we should refuse to supply Americans in London with dollars and in fact prevent

-2-

September 14, 1939

them using their sterling balances for any purpose whatever without express permission.

We did in fact consider the general question in the first instant but rejected this solution which I am still most reluctant to adopt.

I should prefer to see how matters develop for a few days at any rate and then, if necessary, consult you again. End.

We have narrowed our spread and are now quoting 402 and 404 where we propose to stay for the present anyhow.

END MESSAGE.

TREASURY DEPARTMENT

89

INTER OFFICE COMMUNICATION

DATE September 14, 1939

TO Mr. White

FROM Mr. Hesse

Subject: Percentage Change in Exchange Rates, August 24 to September 13, 1939.

	Percentage Change		Percentage Change
<u>British Empire:</u>		<u>Other Countries (Cont'd.):</u>	
United Kingdom	- 14.2	Italy	- 1.2
Straits Settlements	- 14.2	Switzerland	+ .3
Union of South Africa	- 14.2	Poland	- .1
Australia	- 14.2	Colombia	- .1
		Germany	*
New Zealand	- 14.2		
British India	- 14.0	Yugoslavia	-
Hong Kong	- 11.7	Rumania	-
Canada	- 8.9	Bolivia	-
		Guatemala	-
		Venezuela	-
<u>Other Countries:</u>			
Japan	- 14.1	Spain	+ .01
Uruguay, Controlled	- 14.0	Chile, Official	+ .2
Uruguay, Uncontrolled	+ 8.5	Chile, Export	-
Portugal	- 13.7	Brazil, Official	+ .03
France	- 13.3	Brazil, Free	+ .3
Greece	- 10.5	Belgium	+ .8
Hungary	- 10.1	Peru	+ 1.3
China	- 9.8	Argentina, Free	+ 1.9
Denmark	- 7.8	Cuba	+ 3.1
Finland	- 6.9	Mexico	+ 11.6
Norway	- 3.7		
Ecuador	- 3.6		
Bulgaria	- 2.0		
Sweden	- 1.4		
Netherlands	- 1.3		

(*) - No rate quoted.

(-) - Indicates no change.

LAR

PLAIN

90

LONDON

Dated September 14, 1939

Rec'd 4:53 pm

Secretary of State,
Washington.

1847, September 14.

FOR TREASURY FROM BUTTERWORTH.

The following is a summary of such information as is thus far available on the price policy which the British Government may pursue.

1. The British Treasury realize of course the dangers of "inflation" and measures designed to prevent such a development at this stage have been and are being taken. A new budget is being formulated and is to be announced in the near future which will have the widest implications. Taxation will be framed not only to raise as much revenue as possible but also to absorb some purchasing power in order to prevent a sharp rise in the cost of living as well as to curtail productive effort on luxuries, et cetera except for export. In the main new taxation will probably be direct though as mentioned in my No. 1631, September 13, 6 p.m. a direct tax on wages may well prove politically impossible. Its place will doubtless be taken by increases in indirect taxes. If a further check to working-class purchasing power should become desirable a gradual rise in the cost of living may later be allowed, if it becomes

necessary

LAR-2, 1947, September 14, from London.

necessary to prevent consumption beyond essential requirements in directions where rationing is not practicable.

2. Through the powers vested in the Ministry of Supply for the control of employment every effort will be made to prevent competitive bidding for labor and increases in the wage rates. While for the moment there is much unemployment caused by the readjustment from peace to war-time conditions there is no doubt that before long the scarcity of labor will not be confined to particular industries but will tend to be general.

3. The British Treasury looks to the central buying mechanism of the Ministries of Supply and Food working in coordination with the French to be able to purchase essential supplies advantageously without stimulating undue rises in world prices of most of the important commodities. The Ministry of Food contemplates absorbing the exchange loss on some of its purchases of foodstuffs and presumably taking the profit arising out of mass buying in non-gold countries. It has already fixed the prices of a number of foodstuffs at the level prevailing just prior to the outbreak of war.

The Ministry of Supply on the other hand has so far fixed maximum prices only in the case of non-ferrous metals; the last pre-war day's close being adopted, and I am informed by the officer in charge of this section that they

and

LAR-3, 1647, September 14, from London.

and the French hope to be able to stay out of the market for some of these metals for a time by utilizing their stocks in order to allow the price situation to settle somewhat. But they realize that eventually they may have to raise their fixed prices for some if not all of the metals over which the British Government has no control. When I talked to him as late as yesterday I was told that the Ministry of Supply does not plan to absorb exchange losses in the case of commodities in which that Ministry will be dealing. However, all current decisions are being made on such a tentative and empirical basis that no great reliance should be placed in present intentions.

4. The British Treasury though its power over expenditure is weakened by the urgency of national needs as the arbiter in the allocation of foreign exchange is and should remain potent. Furthermore, it has planted its men in all the new departments and is still the only control element. Like other departments the Treasury has coopted additional people from outside of whom Denis Robertson, Hubert Henderson, and Butler of the Council of Foreign Bondholders are the best known in the United States. Incidentally the Ministry of Economic Warfare has probably the greatest collection of talent in any one government department being manned with highly placed civil servants such as Loith Ross and Gwatkin and having also taken in some of the best brains from

LAR-4, 1647, September 14, from London.

from the City with special financial and trade knowledge of various countries. Lord Catto of Morgan Grenfell is the head of the American Section.

5. The forthcoming budget overhangs the stock exchange where prices are tending to decline. The experience of the last war is recalled that the excess profit duty although it was very high and yielded a large revenue did not satisfactorily curtail unnecessary operating, maintenance, and improvement expenditure. Consequently the City fears that the British Treasury now contemplates some type of profit limitation. Political pressure for "taking the profit out of war" is strong and it would be in line with the general policy for prices, wages, and commodities, insofar as a comprehensive policy can be said to have been evolved. But in this as in most things the English do not plan to plan - they plan to muddle.

KENNEDY

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SEP 15 1938

THE TREASURY DEPARTMENT
 U.S. DEPARTMENT OF THE TREASURY
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PLAIN

LONDON

Dated September 14, 1939

Rec'd 6:05 p.m.

Secretary of State,
Washington.

1653, September 14, 11 p.m.

FOR SECRETARY OF TREASURY FROM BUTTERWORTH.

Confirming tonight's telephone conversation the text of Simon's message to you is as follows:

I understand that you have expressed apprehensions at the fact that quotations for sterling in New York have appeared at a figure some 18 cents below the controlled price. It would be over-optimistic to expect that with exchange control in operation the formation of a black market can be altogether prevented. We have in fact met requirements for dollars in London of Americans freely and we assume that sterling on offer in New York must be sterling offered by other neutrals whose demands we were not ready to meet in full or by speculators. We should be glad of any information you can obtain as to size of amount on offer. We assume here that small amounts are being offered on this market. To prevent such transactions altogether it would be necessary either for us to meet all demands for dollars from all neutrals which we are not in a position to do, or alternatively to put complete block on every sterling account owned by foreigners in London. This would inter alia

mean

LAR-2-1653, September 14, 11 p.m. from London.

mean that we should refuse to supply Americans in London with dollars and in fact prevent them using their sterling balances for any purpose whatever without express permission. We did in fact consider the general question in the first instance but rejected this solution which I am still most reluctant to adopt. I should prefer to see how matters develop for a few days at any rate and then if necessary consult you again. We have narrowed our spread and are now quoting 4.02 and 4.04 where we propose to stay for the present anyhow."

KENNEDY

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SEP 19 1938

THE FEDERAL DEPARTMENT
OF THE TREASURY
WASHINGTON, D. C.

CJ

GRAY

BERLIN

Dated September 14, 1939

Rec'd 2:13 p.m.

Secretary of State,
Washington.

1235, September 14, noon.

My 1079, September 6, 10 a.m.

According to an article by Finance Under Secretary Reinhardt in the DEUTSCHE STÄNDER ZEITUNG which is summarized in yesterday evening and this morning's press the tax revenues of the Reich will total 24 billion marks during the fiscal year ended March 31, 1940 an increase of 2 billion over the Reich Treasury forecast of early summer. The article indicates that the 2 billion marks increase in revenues will be derived from the war taxes announced in the war economy decree of September 4.

Reinhardt asserted that there will be no difficulty in financing the war through increased tax revenue, decreases in the prices of goods supplied the government and cuts in non-military expenditures of the Government. He declared that the war surtaxes and other measures would be sufficient to provide the required revenue without increasing other taxes. Specifically he announced there

would

-2- #1235, September 14, noon, from Berlin

would be no surtax on the property tax (vermogensstimmer) or on the corporation tax nor would it be necessary to decree a war profits tax since the tax on increased income of the new finance plan of last spring would serve that purpose.

Reinhardt asserted that war loans were not contemplated. He confirmed the reports from other sources that the Government was planning to discontinue the tax anticipation certificates of the new finance plan stating that if the war "should continue for a longer period" the certificates will be replaced by a financing procedure which would be more successful even than the tax anticipation certificates in tapping the liquid resources of industry for the benefit of Government financing. Presumably answering complaints about the tax anticipation certificates he predicted that with the discontinuance of their issuance certificates now in circulation would probably rise considerably in price.

Possibly indicating a future increase in restrictions on the capital market he announced that industrial concerns would in principle have to finance replacements, changes and extensions of their plant from their own resources.

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SEP 15 1918
The article ended with an assurance that no financial measures would be employed which would lessen the value of the mark. Repeat to Treasury from Heath.

KIRK

GSB

AC

PLAIN

London

Dated September 14, 1939

Rec'd 12:36 p.m.

Secretary of State

Washington

1643, September 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The clarification of the new capital issue regulations was discussed in the press today. It appears that it is no longer permissible to borrow money for example on advances from a bank with the intention of repaying the loan out of the proceeds of a public issue at some future time. This applies especially to local government bodies who are in the habit of taking temporary accommodation from their banks pending the issue to the public. Companies are no longer at liberty to make free bonus issues to their shareholders in the capitalization of reserves and may find difficulty in obtaining authorization for increases in capital.

2. The Bank of England's return shows an increase of £3.6 million in the note circulation making a total of £553.5 million.

KENNEDY

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 SEP 15 1939
 FEDERAL DEPARTMENT
 OF THE TREASURY
 OFFICE OF THE SECRETARY

PARAPHRASE OF TELEGRAM RECEIVED

99

FROM: American Embassy, Berlin, Germany

DATE: September 14, 1939, 1 p.m.

NO.: 1236

Reference is made to telegram No. 1235 of September 14, noon, from the Embassy.

It is understood that there is general comment in government economic circles on the insufficiency of the new war taxes to substantially reduce the gap between mounting government expenditures and revenues. In an article in the DEUTSCHE STEUER ZEITUNG by Finance Under Secretary Reinhardt, it is stated that for the seven months of the present fiscal year when these new taxes will be in operation additional revenue of only two billion reichsmarks will be yielded. The annual returns from the new taxes, on this basis, will be somewhat under four billion reichsmarks. This figure is somewhat in line with the estimate which I gave in my telegram No. 1095 of September 6 to the Department. However, in an article in the FRANKFURTER ZEITUNG it is estimated that their yearly yield will be around five billion reichsmarks.

According to authoritative opinion, the statement by Reinhardt that war loans were not contemplated refers only to public flotations, because it appears certain that it is the intention of the German Government to continue the
private

- 2 -

private issuance of bonds to savings banks and insurance companies - which issues it is presumed will be in larger amounts than heretofore in order to take up the increased savings which the State expects to result from its consumption restrictions. Hitler's personal intervention is behind this avoidance of public bond issues as a means of government financing, according to an authoritative source. An original tenet of the National Socialist doctrine was the objection to "interest slavery" as a "Jewish invention". The growing expenditures for interest on the public debt were brought to the attention of Hitler last winter, and he insisted that there must be a tendency to avoid this charge in new financing. The "new finance plan" of "non-interest bearing" tax certificates was accordingly invented by Reinhardt last spring. However, these certificates cost the Government more in hidden interest than previous types of government paper.

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

END MESSAGE.

KIRK.

EA:LWW



TREASURY DEPARTMENT

WASHINGTON

September 14, 1939

BK 211

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151

The following shows the financial status of the Maritime Commission's shipbuilding program:

Statutory contract authorization	\$345,000,000	
Additional contract authorization limited by funds available in the Loan Construction Fund	<u>100,000,000</u>	
Total contract authorizations available		\$445,000,000
Obligated to August 31, 1939	\$185,000,000	
Contracts in process of approval	126,000,000	
Estimated additional contracts to be entered into before June 30, 1940	97,000,000	
Add approximately 5% for additions to all contracts	<u>22,000,000</u>	
		430,000,000

Of the contracts entered into approximately \$46,000,000 have been liquidated, and the cash balance in the Fund on August 31 was approximately \$155,000,000.

The average monthly expenditures have been running up to date at approximately \$12,000,000, which includes approximately \$2,000,000 subsidy. It is contemplated that these monthly average expenditures will be increased gradually until on June 30, 1940, they may amount to as much as \$19,000,000 a month. It is estimated that during the first five months of this fiscal year the Commission will expend \$65,000,000, and in the last seven months it will expend about

- 2 -

\$133,000,000. On the basis of these figures it is estimated that it will be necessary for the Commission to ask for a deficiency appropriation of approximately \$50,000,000.

SWB

C O P Y

103

September 14, 1939

MEMORANDUM FOR MR. GRAVES

With reference to our telephonic conversation, there is given below a list, by priority, of strategic materials for stock pile reserves.

FIRST PRIORITY

Chromium
Manganese
Tin
Tungsten

SECOND PRIORITY

Manila fiber
Nickel metal
Optical glass
Quartz crystals
Quinine
Rubber

THIRD PRIORITY

Aluminum metal
Antimony
Coconut shells
Mica
Quicksilver
Raw silk
Wool

At present, within the limit of funds available, it is proposed to purchase all of the items mentioned under first priority, plus manila fiber, optical glass, quartz crystals, and quinine indicated in the second priority.

The above list of materials is confidential.

Director of Procurement

September 14, 1939

My dear Jerome:

Thank you for sending me a copy of your memorandum covering the luncheon meeting at my office on September 12.

Sincerely yours,

Hensy

Mr. Jerome Frank, Chairman
Securities & Exchange Commission
Washington, D. C.

HSK:mas

September 14, 1939

My dear Jerome:

Thank you for sending me a copy of your memorandum covering the luncheon meeting at my office on September 12.

Sincerely yours,

Henry

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Securities & Exchange Commission
Washington, D. C.

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Mr. Jerome Frank, Chairman
Securities & Exchange Commission
Washington, D. C.

HBJ:mas

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

September 13, 1939

Confidential

The Honorable
Henry Morgenthau, Jr.
The Treasury
Washington, D. C.

Dear Henry:

Enclosed you will find a memorandum
I have sent to each member of our Commission
stating what occurred at the luncheon on
September 12 at your office.

Sincerely,

Jerome
Jerome N. Frank

Enclosure.

CONFIDENTIAL

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MEMORANDUM

September 12, 1939

TO: The Commission
FROM: Chairman Frank
SUBJECT: George Harrison's Committees.

I lunched today at the Treasury with Secretary Morgenthau, Under-Secretary Hanes, and Mr. George Harrison. We discussed the interchange of correspondence between Mr. Harrison and myself. Mr. Harrison said he had read, only hurriedly, my letter of September 9.

At first he took the position that the committees were acting without any governmental sanction. I called his attention to the fact that he himself, in his letter of September 5, had said that the committees had been appointed so as to have a group through which the Federal Reserve Bank "in its capacity as fiscal agent of the government" could promptly obtain information or cooperative consideration of important problems; and that in that same letter he had said that the appointment of such committees had been discussed in detail in meetings in Secretary Morgenthau's office last April, when various departments of government, including the SEC, had discussed action to be taken in the event of war -- a statement which was incorrect as to our participation.

- 2 -

Mr. Harrison replied that he had not said in his letter that we were represented at the April meeting when he discussed the committee, to which I answered that, if he reread his September 5 letter, he would see that it certainly gave that impression.

I said that the press had created the impression that the committee had been appointed with the approval or at the request of "Washington" and as "advisers" to "the government," and that they would make proposals on their own initiative; and that those press reports were disturbing in their implications, so far as SEC was concerned, in the light of his September 5 letter.

I said several times that the Commission never had objected and never would object, as a general rule, to any suggestions or proposals made to it by any citizen or group of citizens, but that the committees in question, because their appointment had Treasury sanction and they were appointed to assist the Treasury, and because they had been advertised as "governmental advisers," were in a different status. I pointed out that any comments made by such a committee, with such an origin, concerning matters within our province,

would have a significance that would not be attached to comments of a similar character, if made by a committee or group having no such actual and publicized relations with any government department. I said that it was a well-established practice in the government that no department would make any suggestions as to matters within the province of another department or agency, except in deepest confidence to the latter; to that proposition the Secretary and Mr. Hanes both assented.

Mr. Harrison said that, if I so requested, he would ask Mr. Martin to resign from the general committee. I said that the SEC was not concerned because Mr. Martin was a member of that committee; that it was none of our business; that, of course, I would not think of making and had no right to make any request that Mr. Martin resign therefrom; that Mr. Martin could join any committee he wanted to; that I was not in any way objecting to his or anyone else being on the general committee; but that a committee acting as a Treasury adviser (and especially one made up of persons

-4-

some of whom did not like certain provisions of the SEC statutes or regulations) ought not act upon or give recommendations or advice with respect to matters within the jurisdiction of the SEC except at the express request of the Treasury or the SEC. I added that I was sure that the Treasury would not, except at our request, ask for recommendations or advice with respect to those matters, and Secretary Morgenthau and Under-Secretary Hanes agreed that such was the case.

I also said that, doubtless, the reason the Treasury and the Federal Reserve had not told the SEC about the April discussions concerning his proposal to appoint any such committee was that the scope of such a committee's activities, as then discussed, was not to include matters within our jurisdiction, and that I felt sure that, otherwise, we would have been advised. Mr. Hanes emphatically agreed, saying that he had never understood that any such committee was to do anything except to gather information and otherwise to act as and when it was so requested by the Treasury, and that he had not understood that any such committee was to consider or deal in any way with anything within the province of the SEC.

Mr. Harrison said that he thought SEC would like to

-5-

have the general committee's advice. I replied that, frankly, if the SEC had picked a committee to advise it, it would probably not have selected all the persons that compose the committees, since some of them were avowedly opposed to some of the provisions of the SEC statutes and regulations, and some to the evidence which would be presented by the SEC to the TNEC.

In answer to my expressed apprehensions about publicity, Mr. Harrison said that, if the committees made any proposals or suggestions concerning SEC matters, they would come through him and he would see that they were not made public. I replied that it would be impossible to avoid leaks to newspapers, if committees thus constituted made any suggestions or recommendations as to matters within our jurisdiction. Mr. Hanes agreed with me.

Mr. Harrison referred to the fact that the Federal Reserve Bank was properly interested in the amount of brokers' loans and other loans on securities, and I said that of course they were, and that, insofar as margin requirements were concerned, he, as an agent of the Federal Reserve Board, could properly make recommendations and receive advice from anybody, including the committees, the matter of margin requirements being not within jurisdiction of the SEC.

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After further discussion back and forth [In which both Secretary Morgenthau and Under-Secretary Hanes agreed with the position which I took], Mr. Harrison, in response to a direct question put to him by Secretary Morgenthau, stated that he would undertake to see to it that the committees did nothing whatever, including the making of suggestions or proposals, as to matters within the jurisdiction of the SEC. Secretary Morgenthau asked if I was satisfied with that understanding and I said that, of course, I was.

Mr. Harrison said that he might read my letter to the next meeting of the committees. He also said that, of course he could not keep members of the committees from orally discussing among themselves matters affecting SEC, and I said of course he couldn't.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 14, 1939, 7 p.m.

NO.: 1976

FOR THE TREASURY.

There was further progress today in working out the operations of exchange control. Clear out authorized commercial transactions were subject to no delay, especially where the foreign currency was required to pay for essential imports. In that category the National City Bank, for instance, was able to negotiate several sizeable dollar transactions. It is our understanding, confidentially, that the customary formalities for import licenses or foreign exchange authorization are not even required for the French Standard Oil interests because of the war time importance of the imports of these interests to France. Many borderline cases, however, have still to be decided and it will necessarily require a few days before the foreign exchange office will operate smoothly.

END SECTION ONE.

BULLITT.

EA:LWW

LAR

GRAY

PARIS

Dated September 14, 1939

Rec'd 6:40 p.m.

Secretary of State,
Washington.

1976, September 14, 7 p.m. (SECTION TWO).

There was no change in day or pound exchange rates today.

Trading on the Bourse again showed signs of profit taking and the influence of tomorrow's settlement day. The undertone was firm however and a number of French industrial securities improved their previous quotations. In fact the activity and tenor of the Paris Bourse is highly satisfying to financial circles and a complete vindication of the policy of avoiding a moratorium. Most rentes issues improved fractionally today. The Young Loan was quoted today for the first time since the opening of hostilities, at 149 against the last previous quotation of 207.

BULLITT

HTM
NPL

LAR

GRAY

PARIS

Dated September 14, 1939

Rec'd 8:05 p.m.

Secretary of State,
Washington.

1976, September 14, 7 p.m. (SECTION THREE).

The Bank of France statement for the week ending September 7 is published today and is more satisfactory than had been expected. It reveals an increase of 3,220,000,000 francs in commercial discounts and an increase in open market operations of 401,000,000. Advances on securities increased 19,000,000 while thirty day advances were down 95,000,000 note circulation increased a further 3,791,000,000 to a total of 146,000,000,000. (The week covered of course included several of the worst days of currency withdrawals but also several days of the return flow - please see paragraph Three of our telegram No. 1780, September 4, 7 p.m.). Current and deposit accounts were down 1,121,000,000 which included a reduction of 433,000,000 in the Treasury account. The ratio of gold cover was 58.46% compared with 59.42% for the previous week.

(END OF MESSAGE).

BULLITT

RECEIVED
SEP 15 1939
THE STATE DEPARTMENT
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

FEDERAL RESERVE BANK
OF NEW YORK

117

OFFICE CORRESPONDENCE

DATE September 14, 1939

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

I called Mr. Bolton at 10:45 a.m. to keep him posted on the sterling quotation. Sterling was down to 3.89 1/2, I said, not due to heavy offerings but entirely because of the absence of buyers. Bolton referred to recent selling in our market by European central banks; I answered that I assumed that these would cease coming to us now that our rate had dropped below the 4.02 level quoted by the British control. Bolton replied that such orders received in our market must be transactions in which the British control was not interested. To what extent did they buy at 4.02, I asked? He replied that the British control was refusing exchange against certain demands but had not agreed upon any principle under which they would give exchange to all comers. If South America, I asked, wanted to buy dollars in London against old sterling balances, would they get the exchange? They had not come to any definite decision yet, Bolton replied. Wasn't, then, 4.02 a limited rate? Not to everybody, he replied, all American demands for exchange being satisfied if it was a demand against pre-war sterling balances or against current trade with the British Empire. There were a great many other transactions which they had to refuse. How many dollars did I think the control would have to sell to put the market straight, say back to 4.00? So far, I repeated, the volume in our market had been insignificant. Whether \$1,000,000 would do the trick I did not know; nobody could answer that, only an actual test would show. If

OFFICE CORRESPONDENCE

DATE September 14, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Knoke

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we should again get selling orders for sterling similar to those received recently, \$1,000,000 would surely not be enough. Meanwhile our market's reaction to this break in the sterling rate was a feeling of disturbance and nervousness. "They had no reason to feel nervous at all; they would have all the exchange they required," Bolton replied.

What was the answer to the following situation which had arisen in this market? As a result of a cotton deal done by a cotton house in New York with Egypt, the Egyptian party to the contract had been called upon to furnish additional margin. The Egyptian had replied that he could not get dollars in Cairo. If the margin were furnished in the shape of sterling could the American party freely dispose of this sterling in the London market? Bolton replied that he thought the answer was undoubtedly "yes" because dollar exchange was needed in connection with the trade transactions with part of the British Empire.

At 1:25 p.m., sterling having fallen to 3.77, I called Bolton again to acquaint him with the situation. Scandinavia had been a small seller here, I stated, and I understood that South America was trying to sell, but again I remarked the break in the rate could not be due to heavy offerings but rather to the complete absence of

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE September 14, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

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buyers. The development was no surprise to them, Bolton replied, but would I tell our banks that any American demand for dollar exchange would be satisfied in the London market at the rate of 4.02 if such demand was in connection with the liquidation of American owned pre-war sterling balances or with current trade transactions with the British Empire. Could I drop a hint to the market to that effect? That was exactly the position in London, he replied, and I could advise the market of it.

LWK:KW

RECEIVED

SEP 15 1939

TREASURY DEPARTMENT
Office of the Secretary
Financial Section in the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1939

TO Secretary Morgenthau
FROM A. Lochhead

The following schedule has been furnished to me by Mr. Knoke covering the call received from the Bank of England:

1:25 N. Y. time telephone message received;

1:30 N. Y. time message dictated and sent to Mr. Loree by messenger;

2 o'clock N. Y. time Loree acknowledged to Knoke that message was received and that he was notifying the bankers by telephone of this message;

2:30 N.Y. time Mr. Loree gave the message to Dow Jones.

2:40 N.Y. time information appeared on Dow Jones Ticker.

INDEX OF TELEPHONE CONVERSATIONS -- 9/14/39

E. S. T.

10:12 a.m. -- Secretary talked to Butterworth in London.

12:53 p.m. -- Secretary talked to Knoke in New York.

3:15 p.m. -- Secretary talked to Butterworth in London.

3:35 p.m. -- Secretary talked to George Harrison and
Knoke in New York.

4:54 p.m. -- Secretary talked to Butterworth in London.

150 Washington Time 2:50 N.Y. Time

FOREIGN EXCHANGE COMMITTEE ANNOUNCEMENT 122

R F LOREE CHAIRMAN OF THE FOREIGN EXCHANGE COMMITTEE ISSUED THE FOLLOWING ANNOUNCEMENT ON BEHALF OF THE COMMITTEE-

-IT UNDERSTANDS THAT ANY AMERICAN DEMAND FOR DOLLAR EXCHANGE WILL BE SATISFIED IN THE LONDON MARKET AT THE RATE OF 4 02 IF SUCH DEMAND IS IN CONNECTION WITH THE LIQUIDATION OF AMERICAN OWNED PRE-WAR STERLING BALANCES OR WITH CURRENT TRADE TRANSACTIONS WITH THE BRITISH EMPIRE-

-0-

SEP 14 1939

CONVERSATIONS BETWEEN MR. LOCHHEAD AND MR. KNOKE

on September 14, 1939

REGARDING THE OFFICIAL STERLING RATE

9:15 A.M. E.S.T.
(10:15 D.S.T.):

Mr. Lochhead called Mr. Knoke and asked him about the drop in the sterling rate and if he had any information from the Bank of England or any of the New York banks regarding the lower rate to which he replied "No". Mr. Lochhead then instructed Mr. Knoke to call the Bank of England and get whatever information he could.

(1) :

Mr. Knoke called Mr. Lochhead and informed him that the Bank of England's official rate for selling dollars, namely, \$4.02, was applicable to the purchase by them of pre-war sterling balances and to sterling arising from commercial transactions with the Empire. Mr. Lochhead pointed out that our market had no knowledge of these conditions and therefore it had no value to holders of sterling arising from the two classifications mentioned.

12:50 P.M. E.S.T.
(1:50 D.S.T.):

Mr. Knoke called and said that the Bank of England had authorized the release of this information and that he had prepared and forwarded to Mr. Loree a message that the official sterling rate would apply as mentioned above. Mr. Lochhead then inquired of Mr. Knoke if this information was obtained from the Bank of England and Mr. Knoke said "Yes".



TREASURY DEPARTMENT
WASHINGTON

170000
File 324

September 14, 1939.

Suspension of Sugar Quotas

Referring to Mr. Eass' memorandum of September 12, 1939, regarding the above subject, I have made some inquiry regarding contemplated expenditures under the appropriations included in the Budget for 1940. I am advised by the Department of Agriculture (through the Bureau of the Budget) that the benefit payments for the calendar year 1939 are already committed and that funds will flow out of the Treasury beginning within the next thirty days and will probably last through March or April of next spring. As to the benefit payments on the 1940 crop year, which would be paid out of 1941 appropriation, they are not in a position yet to advise us just what will be done.

If the suspension of the sugar quotas is continued through 1940, then it is assumed that there will be no benefit payment contracts entered into during the period of suspension and that any funds appropriated for this purpose could be saved. This would amount to between \$45,000,000 and \$50,000,000. On the other hand, if the suspension is lifted then the benefit payment contracts will be entered into and the above amount will have to be paid out.

The Department of Agriculture expends approximately \$1,000,000 a year in administration of the Sugar Act, and under any circumstances

- 2 -

most of the force now employed on this work would be continued to June 30, 1940, largely for liquidating the 1939 contracts. If the suspension of the quotas is continued beyond that date and no legislative changes are made a reduction in the administrative force would of course be up for consideration.

sub B

TREASURY DEPARTMENT

126

INTER OFFICE COMMUNICATION

DATE Sept. 12, 1939

TO Secretary Morgenthau
FROM Mr. Haas *CH*
Subject: Suspension of sugar quotas.

On Monday, September 11, 1939, the President, acting under Section 509 of the Sugar Act of 1937, issued a proclamation temporarily suspending the marketing quotas on sugar required under the provisions of the Sugar Act of 1937. There is attached the "Statement by the President" for the press on this subject.

The sugar quotas are determined by the Secretary of Agriculture under the Sugar Act of 1937, after consideration of the domestic supply situation and the probable needs of consumers. In the matter of prices, the quota is intended to balance consumers' interests with the interests of the domestic sugar industry.

Annual quotas under this Act have run around 7 million tons, divided between domestic sugar-producing areas (56 per cent) and foreign countries and the Philippines (44 per cent).

This action by the President removes all restrictions on the quantity of sugar, both domestic and foreign, which may be marketed, thereby making available to consumers a substantially increased supply. The Department of Agriculture, on September 7, 1939, stated that "... ample reserves are available for marketing should it be found necessary to increase quotas. The total quantity of such reserves is estimated at 800,000 tons in domestic areas. Large reserve supplies can also be obtained from Cuba and other Latin-American countries."

In addition, cane refiners and importers, and beet sugar factories had 1,760,000 tons of sugar on hand on July 31, 1939, an increase of 25 per cent as compared with a year ago.

Benefit payments to sugar producers are apparently to be suspended after the 1939 program, in view of the President's statement that "it should not be assumed that

Secretary Morgenthau - 2

payments can be made with respect to future crops so long as quotas must be continued in suspension." The excise tax on sugar, levied to finance the administration of the Act, cannot be suspended by proclamation but would require an act of Congress. In the interim, the Treasury will therefore gain in revenue the difference between the collections under this tax (\$65,414,058 in fiscal year 1939) and the expenditures for administration of the Act. Administration expenditures (including benefit payments) were estimated in the budget at \$55,000,000 for fiscal year 1939, and \$48,000,000 for fiscal year 1940.

FOR THE PRESS

IMMEDIATE RELEASE

September 11, 1939

STATEMENT BY THE PRESIDENT

I have issued a proclamation today temporarily suspending the marketing quotas on sugar as an emergency measure required under the provisions of the Sugar Act of 1937.

This suspension was made necessary by the increased world demand for sugar as a result of the outbreak of war in Europe, the extraordinary purchases of sugar by consumers, and the apparent speculative activity. Many consumers, presumably, have been purchasing sugar with the view of holding it in reserve against the possibility of a lengthy war and some speculators and other holders have apparently taken advantage of this situation to advance prices rapidly and capture windfall profits.

The continuance of quota restrictions under the Sugar Act would, of course, place a restraint on the marketing of sugar produced this year in the best sugar producing states and in Louisiana and Florida. A great number of complaints have been made within the past few days that the quota restrictions on sugar marketing are making it difficult and costly for housewives and industrial users to get enough sugar to supply domestic needs.

Sugar quotas first became effective in 1934 with the passage of the Jones-Costigan Act. Under peacetime conditions the quota system protected producers of sugar but made ample supplies of the product available at reasonable prices to consumers. Of necessity, however, the quota system meant certain restrictions. The suspension of quotas removes all these restrictions.

It should be kept in mind that, under the law, the quotas may be reinstated if such a stop becomes necessary for the welfare of sugar producers.

It should also be noted that the domestic sugar producers will continue to receive payments under the 1939 conditional payment program now in effect. Producers will, of course, understand that under the provisions of the Sugar Act it should not be assumed that payments can be made with respect to future crops so long as quotas must be continued in suspension. Nor should any one assume that increased acreage planted under the stimulus of war conditions can be made permanent for purposes of determining future allotments.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 14 September, 1939.

129

From: Spagent, Hongkong, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

As indicated in previous messages, important changes in Chungking government are pending. The most interesting one will be in Finance Ministry. T. V. Soong went to Chungking the fifth, returning to Hongkong the ninth in response to emergency call in connection with defense finance regulations issued by Governor, Hongkong, restricting purchase sale loans of foreign currency and gold in the colony, copies of which are being forwarded via next clipper mail. I am pleased to report that the relationship between Chiang Kai Shek and T. V. Soong is greatly improved during visit of T. V. Soong to Chungking.

Present plans involve removal of H. H. Kung from the Ministry of Finance and restoration of T. V. Soong to power. This change will be made very subtly as sudden action may be interpreted as admission by Chiang Kai Shek that he erred in withstanding prolonged pressure to clean house. Preliminary to this face-saving process a super finance committee has been appointed as described in previous messages and Finance Ministry has ordered establishment of joint head office by four government banks in Chungking. Mandate was issued appointing Chiang Kai Shek as chairman of the board of executives with H. H. Kung, T. V. Soong and Y. M. Chien, general manager Joint Savings Bank as members standing committee. Thus

14 September, 1939.

- 2 -

it will appear that Chiang Kai Shek has assumed control of finance structure. By the end of the year it may be discovered that H. H. Kung's duties as president of Executive Yuan will have become so onerous that he will have to give up activities in connection with finance and T. V. Soong will quietly take over. Above is known to very few at present and it is desirable to keep plans confidential as long as possible.

Meantime T. V. Soong is leaving for Hanoi in a few days to negotiate with French with whom he seems to have powerful influence in regard to the transportation of war materials to Indo-China which the French have been restricting lately. From Hanoi T. V. Soong will proceed to Chungking, remaining for some time. As to future movements, if all goes well according to the plan in Chungking, he may make a trip to Europe; should the situation be not to his liking, he will remain in China, but more of this later. T. V. Soong appears very happy over the trend of affairs in Chungking and over the fact that he has made peace with Chiang Kai Shek. It is my opinion that it was necessary for them to make certain mutual concessions, the nature of which Soong is not revealing at present. He was favorably impressed with Sheehan and his mission to China and I feel certain he will take an active personal interest in the commission. He asked Sheehan to call on him in case of need.

GROUP MEETING

September 14, 1939
9:30 a.m.

Present: Mr. Hanes
Mr. Duffield
Mr. Thompson
Mr. Smith
Mr. Graves
Mr. Haas
Mr. Lochhead
Mr. Harris
Mr. Foley
Mr. White
Mr. Bailie
Mr. Eurgeas
Mr. Viner
Mr. Riefler
Mr. Smith
Mr. Stewart
Mrs Klotz

H.M.Jr: Good morning, everybody.

I got a memorandum here and I will read it so we can put it in writing. This is from Harry Collins.

"While I have not been able to ascertain the total amount of manganese in this country in bond, and while it is a matter over which I have no control, I think some steps should be taken, if possible, to prevent such manganese as is presently in bond from being dissipated by shipments which would take it out of the continental limits of the United States."

Who can help on that?

White: That is Customs.

H.M.Jr: Harris, could you look into that?

Harris: I will be glad to look into it. I can't imagine that this state of affairs - I can't imagine anybody shipping manganese out of this country. We are, of course, great importers of manganese and when the steel companies get under way they will want that and won't export a pound. I will be very glad to get a report on that.

H.M.Jr: This comes under strategic war materials.

- 2 -

White: It may be possible that they may be in bond for technical reasons.

Harris: It is the first time I knew that manganese ever came in in bond.

White: I never heard of any.

H.M.Jr: Harold, ask Collins to give you a list of the eighteen strategic war materials that he is working on for the Army and Navy. There is a list of eighteen. You might give that list to Mr. Harris and then when he is looking up manganese, he can see if any others of these are in bond. I think he has a list of eighteen.

White: You are speaking to me?

H.M.Jr: No, Graves. Graves can look at the Procurement Fund. He can contact Collins.

I read this thing about the Chinese. What am I to do about it?

Foley: Nothing. I thought you would like to know what the bill of particulars stated they were relying on....

H.M.Jr: Number 12 where it says H.M.Jr. requested Ambassador Wang to work out the details of the loan, it is entirely wrong. I would have made that request in Paris of Wellington Koo, but I was afraid to make the request. I didn't trust them. I made it in the Embassy of Wellington Koo and had no contact with Wang whatsoever.

Foley: They sent the bill of particulars down and they wanted to know if we wanted them to come down for a conference. I don't think it is really necessary.

H.M.Jr: Oh, I think if it is all as accurate as that....

Duffield: I don't have anything.

H.M.Jr: How are you making out on that press release?

Duffield: It was sent yesterday to the War and Navy Departments and to Mr. Foley and Mr. Hanes for them to look at.

- 3 -

I hope to get answers back today.

H.M.Jr: Harry?

White: Just a table showing the fall in the various rates since the trouble began.

H.M.Jr: If you stay behind a minute, Harry, when this meeting is over, I want to talk to you.

White: Yes. That is all.

H.M.Jr: And also Ed Foley. I will talk to the two of you.
Ed?

Foley: SEC asked for certain reports in regard to the movement of international credits that were on file in the Fed in New York, and now they say that it isn't necessary at this time for their Examiners to look at that stuff. They may call on us a little later, but they don't need to look at it right now, and a letter to the Fed and a letter to the SEC are being prepared for your signature.

H.M.Jr: Is that all?

Foley: That is all.

H.M.Jr: How about the letter to the Attorney General on that bank?

Foley: It went out, I understand, to Delano last night. Cy sent it to him.

(Mr. Hanes enters)

H.M.Jr: Hello, Johnny. Johnny, read this over and see if you think that is what you and I said.

Johnny and I had lunch with two gentlemen and I didn't realize that this fellow was a reporter, and he goes back and writes five pages of what took place, but he does send us a copy. Neither Johnny nor I was a hero at lunch.

Hanes: Was he?

- 4 -

H.M.Jr: Yes.

Harold?

Graves: (Shakes head negatively).

Burgess: The Government market is very quiet this morning. The Federal is taking very little. Just before I came in here they had taken 132 thousand. They are just getting little odd lots and the market seems to be taking care of itself pretty well. You know about sterling, it is down to 3.98. Archie probably explained that.

Lockhead: Sterling is down to 3.96. I have asked Knoke to telephone the Bank and give us some information on it.

H.M.Jr: Could somebody tell me, has there been any excessive amount of holders of baby bonds cashing their bonds?

(Mr. Viner, Mr. Riefler and Mr. Stewart enter)

H.M.Jr: You have got to go the whole length of the room; you can't come in the back door. Tom Smith comes in at 8:29 and he tells me the waitress says this morning, "You had better hurry up, you will be late for class."

Does anybody know whether there has been an extra amount of repatriation of baby bonds?

Bell: We haven't noticed it.

H.M.Jr: Would you take a look at it?

Bell: Yes. We probably won't know until the end of the month.

H.M.Jr: Anything from the economics section? George?

Haas: I have something. You haven't seen this since the war started. (Handing chart to Secretary)

H.M.Jr: I see according to the papers they are not going to take a vote on corn.

- 5 -

Haas: That is right. That shows they were up higher than they were estimated in January, but a good piece of that is the result from the Commodity Credit Corporation taking up the cotton loan from the banks.

H.M.Jr: Are you going to tell me soon about Agriculture?

Haas: Yes, I am making good progress on that. I may be able to finish it up today.

H.M.Jr: You might bring in tomorrow some figures, too, on what WPA is doing with their employment. I haven't seen that in a long time.

Bell: On August 31st it was down to 1,850,000. In September it was estimated at 1,800,000,000.

H.M.Jr: Did you hear that, George?

Haas: Yes.

H.M.Jr: Where did you get that from?

Bell: In last night's paper.

H.M.Jr: Jake?

Viner: Well, we have been running into War Industries Board and Army staff men who seem to be working on various plans, including plans for financial controls, and I am wondering just what the contacts are between the Treasury and that work.

H.M.Jr: None.

Viner: What sort of contacts does the Treasury want to have?

White: I can give a bit of information. One of the men who was working on the price aspect of that control under Moulton and with Harvey, about six months ago they were supposed to work with the Treasury and they kept postponing the date and they were finally taken on the payroll of the Army and did not contact the Treasury further. But he asked

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one of my men what we were doing here with respect to preparing for financing of the war, if and when it does come. Possibly he left off the "if," I don't know. He said he didn't know anything about it, but he repeated the request to me, because the fellow added, "Certainly, they are doing nothing in the War Department."

H.M.Jr: Well, Jake, I have got you down at 3:00, so if you want to talk about any other stuff or want to bring your associates with you at 3:00, I will have plenty of time for that.

Viner: Yes.

H.M.Jr: If you want to come in at 3:00, I will be delighted.

Bell: This chart that they have got, Mr. Secretary, has a War Finance division in the set-up. It seems to me that that ought to be eliminated if it has any reference to Treasury financing.

H.M.Jr: The President told the Cabinet he wouldn't accept this book which the Assistant Secretary of War and Navy got out, this pamphlet on how to organize. I gathered he just completely discarded it.

Bell: I saw yesterday in Harold Smith's office these various charts and he had marked on every one, "Dis-approved" - the President had.

H.M.Jr: There you are. And again, for your guidance, the President considers War Industries Board simply a study group.

White: The public certainly doesn't know that.

Viner: Even if they are a study group and an emergency comes and they are ready with lots of plans, those plans get lots of headway, whatever their merits.

H.M.Jr: I know what the President's plans are for the war, because he told me twice and anything that has to do with finance, he is relying on the Treasury.

White: Under those circumstances, maybe it will be better just to ignore the other.

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H.M.Jr: Do you think so?

Bell: Might work through the Budget to get that part eliminated.

H.M.Jr: Would you bear that in mind?

Bell: Yes.

Hanes: I would like to come in at that meeting at 10:00.

H.M.Jr: What meeting?

Hanes: About the war resources.

H.M.Jr: You are invited.

Hanes: Thank you.

White: Mr. Secretary, I wonder whether something else might not be thought of. Why doesn't the Treasury Department go ahead with the preparations, holding on its own....

Viner: Somebody must do that. That is our interest in it, that it ought to be done.

White: That will be done fully within the Treasury as one of your regular Treasury projects.

H.M.Jr: Supposing I see the three "E's" this afternoon and see what they have got. I haven't really sat down with them since they have been here.

White: They are always late.

H.M.Jr: And let's see what they say. I know the President isn't relying on this War Industries group. He is not relying on these mobilization plans. That book that you saw, Harris, that is just discarded now. We will talk about it at 3:00. I consider I am ready. After all, on a question of financing a war, it is best to get down to how much money they need and are going to need and raise it. I don't see that we have any very formal plans.

White: No, except that I think possibly to say that you have got the plans and in the second place, they

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may be a little more involved, not only the question of financing, but whether you intend to adopt any additional tax structure, et cetera.

- H.M.Jr: All I know is that the President at least two or three times has said, "The Treasury is all right, that is the least of my worries."
- White: And I think financing the war is the least of the worries, but you might have it packed away in a little....
- Lochhead: Nothing to add to that sterling except that I mentioned Argentine asked me this morning about rates. They are very much interested. I noticed they put a call back for 11:00 o'clock. They are going to try out the London market.
- H.M.Jr: ^{it} What is/running? Why don't you go out and get the latest quote?
- White: I think there ought to be a little conference on the course of sterling, if it is going down like this, because though there may be adequate justification and reasons up to a certain point, at which point there may cease to be those reasons and what the effects are I think we ought to consider, because they now have exchange controls. There isn't quite the same explanation for decline. I think the three "E's" might well add that to their consideration.
- H.M.Jr: Dan?
- Bell: Strategic and critical material is what I have been working on. Without going into the details of this memorandum, the Act authorizes an appropriation of 100 million dollars to be used for four years without any limit on any particular year, and I have discussed the matter with the Director of the Budget and the Procurement Division and we all feel that the President could not enter into definite contracts for more than the 10 million which was appropriated in the deficiency bill, but that he could put into those contracts an option to take whatever additional amount he wanted, subject to appropriations by Congress. But Harry Collins doesn't feel that he will get a nibble on that

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option. He doesn't think they will bid on that. We suggest this, that he is contemplating asking for bids and stepping up amounts. For instance, he will say, "What do you bid on 10 thousand tons of manganese, 15 thousand, 20 thousand"? Now, we will ask for bids up to 20 million dollars worth of that material and he can accept any or all of them. When the special session of Congress comes in we will ask for a special appropriation of a million dollars immediately.

H.M.Jr: Will you put that on one page for me?

Bell: I have got it on two pages.

H.M.Jr: Give a copy of it to Harold.

Bell: If you would approve that last suggestion, I would like to send a copy of that to Harry Collins so that he can go ahead with it. He is ready to ask for bids.

H.M.Jr: I want to show this to the President.

Bell: O. K.

H.M.Jr: This is in a form that he could see it?

Bell: It is in the next to the last paragraph on the second page.

Viner: What is gained if the stocks you buy are already in the country? Why should we bid on stocks to be brought in and not already here?

Bell: These bids being asked will probably come from all sources.

Viner: I think the purpose is to bring in stocks that are not here now.

H.M.Jr: He is right. That is the whole purpose.

Bell: Well, but they have got in the law reference to that old act that requires you to "Buy American."

Viner: That is just absurd.

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Bell: It is there and they have got to work some way, as I understand it, to get around it.

H.M.Jr: Anything else?

Bell: Sugar quotas.

H.M.Jr: Go ahead.

Bell: If this suspension at the present time is made of sugar quotas and continued through 1940, it is assumed there will be no benefit payment contracts entered into for that crop year, but if the suspension is raised any time before the next crop year starts, which would be next spring, then they would enter into those contracts and the money would have to be available for that purpose. Or, if the suspension is continued through the year, they could save between 45 and 50 million on the sugar quota payments, provided of course, that Congress doesn't eliminate the taxes, but it takes an act of Congress to eliminate the taxes, and the administrative expenses amount to about one million dollars a year and they will have to continue for the most part through 1940 in order to liquidate the 1939 contracts.

H.M.Jr: Is Harold Smith watching that?

Bell: Yes, he is watching it. He is having a rather difficult time because it was mentioned a week or so ago that agricultural expenditures ought to come down, and the very next day Wallace started a sort of publicity campaign that there would be no change in agricultural payments. I guess you saw that in the paper. That was immediately after they had the conference. So he thinks he is going to have quite a difficult time in getting reduction in agriculture expenses, even though we have higher prices. That is the memorandum, if you want it. (Handing memorandum to Secretary)

Now the Maritime program, if you would like to hear it.

H.M.Jr: Yes.

Bell: They have statutory and construction loan funds, contract authorizations amounting to 445 million

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dollars. They have actually entered into contracts up to August 31st of 185 million. They have contracts in the mill which will be approved within the next two weeks for 125 million dollars. They estimate that they will enter into additional contracts before the end of this fiscal year of 87 million and then they add to that approximately five percent for additions to the contracts as they go along, something that they see they want to add, amounting to 450 million dollars, so that only leaves them 15 million dollars at the end of this year of unused contract authorizations. They have paid out only 46 million dollars. They started last spring to really making payments. They had cash available on August 31st of 150 million dollars. They are spending at the present time about 12 million dollars a month and by the end of this fiscal year they expect to have that up to about 19 million dollars a month. All of this program contemplates a deficiency of about 50 million dollars.

- Baillie: Mr. Secretary, when you look into the actual state of business in the shipyards, you find that that program where they say they have authorized contracts runs, of course, three and four years ahead, so that most of the shipyards themselves are in a position where they can't take any new business and the bottleneck is the ways on which ships can be built and these drydocks and that sort of things. I know the largest company can't take a bit of new business for three years.
- Bell: These contracts run from eighteen months to three years. Very few of them run three years; those are the large boats. They average around twenty months.
- Baillie: A good many foreign contracts are still being worked on by the American shipyards.
- Harris: There is one thing you have left out of that report and that is that many of these boats, it is contemplated, will be sold, you see, so that a good deal of that money will be coming back.
- Bell: Eventually, yes. You won't get much of it during this period we are talking about. They do build

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these boats and sell them on long-term repayment plans.

Hanes: They also lease them.

Bell: That is the purpose of the construction loan fund. It is a revolving fund and these payments go back in and they use it over and over.

H.M.Jr: That cash balance, where is that?

Bell: It is in the Treasury, it is just an appropriation. It means we have to finance that.

H.M.Jr: That is all....

Bell: It is all in the appropriation.

H.M.Jr: Bring me up to date tomorrow on U. S. Housing and I suppose they have charts - ask them to take a look from now until June 30th and see what they want to do. When I went away I think they spent about 30 million dollars.

Bell: Just a little more than that. They have spent between 40 and 50 million dollars.

H.M.Jr: Would you bring me up to date on that?

Bell: Yes, I will.

H.M.Jr: Sterling?

Lochhead: Sterling is being quoted anywhere from 3.90 to 3.95. Now that the market is seeming to go through the so-called official rate of 4.02, they are not doing anything until they find out whether London is going to buy anything or not. I have asked Knoke to telephone the Bank.

H.M.Jr: Why don't I call Butterworth?

Lochhead: I think it would be all right, because nobody in this market has anything. It seems to me that under the Tripartite we have a right to consult them.

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H.M.Jr: I think I will call up the Ambassador himself and ask him.

Viner: They will hear you.

H.M.Jr: I want them to.

Thompson: I have nothing in particular to report other than Judge Moyle has a cold. I haven't been able to place him, but I have a room for him downstairs.

H.M.Jr: Who takes his quarters over there, Moyle's?

Thompson: It will be available for Mr. Harris.

H.M.Jr: He is a two-office man.

Thompson: Yes.

Harris: I might be known as H₂O.

White: Not bad.

H.M.Jr: All right, that is all.

(Conversation with Butterworth in London, England)

September 14, 1939
10:12 a.m.

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Operator: Go ahead.

HMJr: Hello.

Wm. Walton

Butterworth: Hello, sir.

HMJr: How are you?

B: Very well, thank you.

HMJr: All right. Butterworth, I asked for the Ambassador....

B: Yeah.

HMJr: I understand he's out.

B: Yeah.

HMJr: And when he comes in I wish you'd say that I had asked for him - I'm talking to you and this -- I'd like him to know that I -- what I'm saying to you I want him to know. You see?

B: I can't hear you, sir.

HMJr: I'd like you to tell the Ambassador of our conversation.....

B: I will, sir.

HMJr:just as soon as he comes in.

B: Right, sir.

HMJr: Now, the -- the official rate for the pound as you most likely know is \$4.02.

B: Yes.

HMJr: And we have a nominal rate here now of \$3.88 and three-quarters.

B: Uh-huh.

HMJr: Now, while there's very little business being done, naturally I'm disturbed. I don't know what it means.

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B: But I read this morning that the rate yesterday at New York was \$3.87 I think it was, or \$3.97. I telephoned the Treasury this morning.

HMJr: Yeah.

B: And I'm going to see them later on this afternoon.

HMJr: Yeah.

B: About that very question. They are consulting with the Bank of England now about it.

HMJr: Fine. Well, I'd like to know and -- I'm disturbed and I'd like to get a -- I'd like to have an explanation.

B: Right!

HMJr: Because if, after all, the pound is pegged.....

B: Yes.

HMJr:why does it go down to these prices?

B: Yes.

HMJr: And how much further is it going to go.

B: Yes. Our hunch is that this is the temporary condition until these regulations become effective.

HMJr: Well, let -- let's get -- see if you can get me an answer.

B: I will indeed, and I've already asked for one.

HMJr: Now just a minute. Just a minute.

(Brief pause.)

Now, will you -- you understood that I did ask for the Ambassador. Hello?

B: Yes, sir.

HMJr: And you will tell him so.

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B: Yes, I will.

HMJr: And I'd like to hear from either the Ambassador or you today if -- if it's possible.

B: All right, sir.

HMJr: On the telephone.

B: Oh, on the telephone?

HMJr: Yes. And.....

B: Right.

HMJr: -- and don't forget if your family should come over here, Mrs. Morgenthau and I will do anything we can to help them.

B: Well, that's awfully kind of you and I do appreciate it.

HMJr: Right.

B: At the moment I've got them in Scotland and I thought I'd keep them there until the submarine situation clarifies a little bit.

HMJr: All right. The -- my -- the trunk and my suit all arrived.

B: Oh, good. I'm glad.

HMJr: Thank you. Goodbye.

B: Goodbye, sir.

September 14, 1939
12:05 p.m.

HMJr: Yes, Mr. Hickerson.

John D.
Hickerson: Could I have one minute with you about something
I can't mention over the telephone?

HMJr: Is it as confidential as all that?

H: Yes, sir.

HMJr: Is it something Mr. Hull wants?

H: Mr. Hull knows about it. It's something Canada
wants.

HMJr: Something Canada wants?

H: A confidential message from the Canadian Government.

HMJr: Well, how long will it take you to get over here?

H: It'll take me approximately three minutes.

HMJr: Make it three and a half and I'll see you.

H: All right. I'll dash right over, sir.

September 14, 1939
12:07 p.m.

HMJr: Hello.

Capt. L.C.
Covell: Yes, Mr. Secretary?

HMJr: Covell?

C: Yes, sir.

HMJr: Coast Guard placed me in a very embarrassing position this morning. I was there and the Secretary of the President, General Watson, asked me whether it would be to my approval to take Congressman Anderson off a boat and I told him no.

C: Oh.

HMJr: Then he called up the General and said you had already agreed to it.

C: Well that was taken up, yes, sir, this morning with the War Department.

HMJr: Well, did you clear it with the office of the Secretary of the Treasury?

C: No, sir.

HMJr: Well, if you'll look up your regulations you'll see that you've got no right to transport any civilian without.....

C: Yes, sir. Yes, sir.

HMJr:clearing it with the office of the Secretary.

C: Well, that was our mistake, sir.

HMJr: But I didn't want to embarrass you.

C: Yes, sir.

HMJr: So I said, "Well, if they've done it....."

C: Yes, sir.

HMJr: "..... O. K."

C: Yes, sir.

HMJr: But please see that it doesn't happen again.

C: I will, sir. I'll.....

HMJr: But you'll see that there are regulations, I think, that no civilian should be transported without getting approval from somebody in my office.

C: Yes, sir.

HMJr: But I didn't want to make a monkey out of Coast Guard.....

C: I see.

HMJr:so I let it go.

C: All right, Mr. Secretary. I'll certainly see that that doesn't happen again.

HMJr: And -- the other thing is if Burke is well.....

C: Yes, sir.

HMJr:please, order him to be at Anacostia at three o'clock tomorrow.

C: Three p.m.....

HMJr:Eastern Standard Time.

C:Eastern Standard Time tomorrow.....

HMJr:and to fly me to New Hackensaak.

C: All right, sir.

HMJr: Thank you.

C: All right, sir.

September 14, 1939
12:09 p.m.

HMJr: Hello.

Operator: Mr. Bell. Go ahead.

HMJr: Hello.

Daniel W.
Bell:

Yes.

HMJr: Dan.....

B: Yes, sir.

HMJr: I let the President -- read you^s memorandum of the 13th entitled, "Strategic and Critical Materials"?

B: Uh-huh.

HMJr: He read it very carefully and I think you'll be interested in knowing he said, "No." Because he's not going to ask for any money from this Congress; number one.

B: Yeah.

HMJr: Therefore he suggests that you and Harold Smith see if you can't work it out on this basis: He said he's increasing the Army by from 25% to 30%, whatever it is.

B: Um-hm.

HMJr: Therefore, he thinks that he has the right to get the necessary materials to go with the increased army under his Proclamation.

B: (Laughs)

HMJr: He said to take it up with the Attorney General and especially with Harold Smith and see whether he can do it that way.

B: Gosh, I'm afraid of that!

HMJr: Well, take a look at it, Dan.

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B: Yeah. Well, I have taken a look at it. I just don't think.....

HMJr: Well, this isn't an order -- this isn't an order, it's a suggestion.

B: Yeah.

HMJr: Well, cheer up.

B: Yeah. O. K.

HMJr: It's not an order, it's just a suggestion.

B: Well now, what should Harry Collins do - go ahead? He's ready to shoot.

HMJr: Well, he shoots on the ten million.

B: Only?

HMJr: Only.

B: And then if -- if we can do it the other way, he'll just have to ask for further.....

HMJr: That's right.

B:quarters, and not increase this one.

HMJr: Only on the ten million.

B: Ah.....

HMJr: Keep Harold Graves posted, will you?

B: You know, he could -- he could ask for that twenty million dollars' worth in bids by step-ups and still not commit the Government because he can take any part of it up to the twenty million.

HMJr: The President read the memorandum, shook his head, and said, "No."

B: Well, O. K. Got to see what we can do.

HMJr: Keep Harold Graves posted.

B: I will.

HMJr: Good.

September 14, 1939
12:53 p.m.

HMJr: Hello.

L. W.
Knocks: Yes, Mr. Secretary.

HMJr: What's happening to the pound today, anyway?

K: Well, (laughs) the pound, you know, has been down to three seventy-seven.

HMJr: Yeah.

K: The -- the pressure on sterling is not great. I mean the amount offered -- the amounts offered are not large.

HMJr: Yeah.

K: But the utter absence of buyers has brought on this situation.

HMJr: Um-hm. Well, it doesn't look as though they're taking very good care of it, does it?

K: Well, no, it certainly does not but, of course, I think strictly speaking sterling can only go one way, Mr. Secretary.

HMJr: Which way is that?

K: Well that is going down. I mean, with a -- a country that has -- that spends one-half of a billion five hundred or spends seven hundred -- three and a half billion dollars a year on -- on armament alone before war was declared, I don't think can -- currency of that country can't travel to a higher level.

HMJr: Yeah. Well, we're waiting to hear from them, aren't we?

K: Well, I don't know whether they had told you - I just spoke to them.

HMJr: Yeah.

- K: And I have -- they asked me, without my telling them what the purpose was of my second call -- they asked me that I tell our banks here that any American demands that dollar exchange will be satisfied in the London market at the rate of \$4.02, if such demand is in connection with the liquidation of American-owned pre-war sterling balances or with term trade transactions with the British Empire.
- HMJr: Yeah. Well, why the hell don't they say that publicly?
- K: Ah -- well, if they said it publicly in the London market alone it wouldn't get here yet because of the -- the cable service, you see. And that is really one of the difficulties that our banks are not, nor the banks in London are in a position promptly to communicate with each other.
- HMJr: Well, they could tell you to give it to us, couldn't they?
- K: Well, they might have done so earlier, yes, but it is now on the way over to the chairman of the committee and he'll put it out -- he'll distribute it immediately among the banks.
- HMJr: The chairman of what committee?
- K: Oh, this foreign exchange committee, Loree, that's acting as a chairman for us.
- HMJr: Normally you'd call up the banks yourself, wouldn't you?
- K: Yeah, but that would -- that's just the difference you see. And in that case we would -- we could only call a limited number and he now has the -- through a committee, access to the 60 odd banks here.
- HMJr: I see. O. K.
- K: All right, sir. I hope you feel well after your trip.
- HMJr: I don't, thank you.
- K: (Laughs) Well, I'm sorry I raised the question.

HMJr: It's all right.
K: Goodbye, Mr. Secretary.
HMJr: Goodbye.

September 14, 1939
3:15 p.m.

Operator: Go ahead.

HMJr: Hello.

Wm. Walton
Butterworth: Hello, sir.

HMJr: Butterworth.....

B: Yes, sir.

HMJr: I'm going on the assumption whatever I say to you
is listened to anyway.

B: Yes.

HMJr: So -- I mean, by the English, so I'm not saying
anything I don't want them to know.

B: Yes.

HMJr: Now, I didn't hear from you on the rate business.
I don't know if you know what happened.

B: No.

HMJr: Well let me tell you at this end what happened.
After we got Knoke to telephone the second time -
we had great difficulty getting him to phone -
they said that they had an arrangement whereby
anybody who had a legitimate transaction could
get his sterling at \$4.02.

B: Yes.

HMJr: And then they gave that to Knoke and Knoke gives
it to the so-called Loree Committee, who gives it
out in New York. Now, I can't imagine a more
stupid way of handling something than the way
they've handled this thing today. Can you hear me?

B: Who gave it out in New York?

HMJr: Knoke gives it to Loree, who is chairman of a
foreign exchange committee.....

B: Yes.

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HMJr:of the banks.

B: Yes.

HMJr: And he announces to the world what is the policy of the British Treasury is.

B: Yes.

HMJr: And -- as a matter of fact, he called them before he called us.

B: Yes.

HMJr: Now, I take it that you yet haven't heard from the British Treasury.

B: Well, they've just telephoned me and asked me to come over to the Treasury now; that they've formulated the message which they want me to send to you.

HMJr: Well, this was -- we had this information -- ah -- about five minutes of one.

B: Yes.

HMJr: Standard time.

B: Yes.

HMJr: It's now a quarter past three.

B: Yes.

HMJr: And sterling, as you know, went down to \$3.77. It's up now, I think, \$3.97, or something like that.

B: Yes.

HMJr: Well, I don't know what it does to their markets but it's most disturbing to our markets.

B: Right.

HMJr: And it certainly doesn't help the British credit to have the pound being kicked around by every Tom, Dick and Harry.

B: Yes.

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HMJr: And then have the thing announced, what the British Government policy is, by an informal committee of the banks.

B: Yes.

HMJr: And I can't -- I -- to me it's the height of stupidity.

B: But who announced that, our banks?

HMJr: Yes. There's a --there's a group of -- of -- a group of banks of foreign exchange which George Harrison formed in New York.

B: Yes.

HMJr: And Mr. Loree is the chairman of it.

B: Yes, but -- did they do that with the British -- with the Bank of England's permission, or not?

HMJr: I don't know. Ah.....

B: I.....

HMJr: I think they did. Well, what -- as I understand it from Knoke -- I talked to Knoke -- that -- that the Bank of England told Knoke that he could tell the banks. See?

B: Yes.

HMJr: He didn't tell him to make a public announcement but that he could tell the banks.....

B: Yes.

HMJr:that they could clear at \$4.02.

B: Yes.

HMJr: And when he told them that sterling was selling at \$3.77.

B: Yes.

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HMJr: Now, I don't know what's the matter over there, but if they're going to clear at \$4.02 why don't they tell -- why doesn't the British Treasury tell the United States Treasury and then let the United States Treasury announce it for them?

B: Yes.

HMJr: I mean, that's what we've got the Tripartite for.

B: Right.

HMJr: Now, if -- if they want to -- and that's what we set up this whole basis of exchange for information.

B: Yes.

HMJr: To me -- it's -- I just can't understand it.

B: Who -- why did Knoke telephone at all?

HMJr: Because we asked him to try to find out to get a rate. So we told him to telephone the Bank of England to see if he could find out what they were doing.

B: Yes.

HMJr: And that's what happened.

B: Well, I'm going to see the Treasury, as I say, in about ten minutes and I will call you back if I do.

HMJr: Well, I -- and -- and see if in the future if -- if they can't tell us the night before and then get word to the United States Treasury and let the Treasury announce it for them.

B: I will, sir.

HMJr: See? What -- what's the purpose of having a -- a framework and the Tripartite Agreement if they don't use it?

I agree, sir.

HMJr: What?

B: I agree, sir.

HMJr: Well, and here it is twenty minutes past three our time and you're sitting over there as my representative and you -- you haven't got it yet.

B: Yes, but I'm just about to get it.

HMJr: What time is it London time?

B: It's about -- about twenty minutes past nine.

HMJr: Well, and if -- what they're going to do tomorrow.....

B: All right, sir.

HMJr:let them tell you.

B: All right, sir.

HMJr: And -- and let -- and let the United States Treasury announce it for them.

B: All right, sir.

HMJr: See?

B: Yes, and then I think that -- that our part of that would be to slow up the Knoke conversations too.

HMJr: What's that?

B: I think our part of that would be to slow up the Knoke conversations.

HMJr: Yes, if we can get information from the British Treasury.

B: All right, sir.

HMJr: But if we can't and we've got to get it somehow, we're going to get it by hook or crook.

B: Yes, sir. Well, I -- I hope to talk with you in a very few minutes again.

HMJr: What's that?

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B: I hope to talk with you in a very few minutes again.

HMJr: Good, and you keep the Ambassador informed, will you?

B: Oh, yes, I will.

HMJr: Thank you. Thank you.

B: You're welcome. Goodbye.

September 14, 1939
3:33 p.m.

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HMJr: Hello.

Operator: Governor Harrison and Mr. Knoke.

HMJr: Right. Hello.

George
Harrison: Hello.

HMJr: George.....

H: Yes, Henry.

HMJr: I am very much disturbed about what happened on
the pound today. At about five minutes of one, I
called Knoke.....

H: Yes.

HMJr:and Knoke told me about this word that he got
from the British that they'd do business at \$4.02.

H: Yes.

HMJr: Now, I just talked with Butterworth. I want to tell
you, Butterworth had not yet heard from the British
Treasury, although he's been asked to find out if
they would do business at \$4.02, and I have sent word
to the British Treasury that this sort of thing
can't go on again.

H: Yeah.

HMJr: And that if the British Treasury has an announcement
to make under the Tripartite, I wish they would
communicate it to me at least the day before instead --
instead of the night afterwards so that we can
announce it and give all of our business men an
equal opportunity.

H: Uh-huh.

HMJr: Now, I have before me the Dow Jones ticker of one fifty
with announcement by Loree, which is one hour
after Knoke talked to me that you could do business
at \$4.02. Now when Knoke talked to me the pound was
down to roughly \$3.77 and -- I mean, the first for the...

H: I think your -- the hour is different, it's the daylight time.

HMJr: Oh! You're right -- you're right. Well, now wait a minute -- no, wait a minute, that's our time here. Ask Knoke.

H: Yes, Knoke is right on here. He'll answer.....

HMJr: I think that one fif.....

Knoke: Mr. Secretary.....

HMJr: Yes.

K: Ah.....

HMJr: One fifty I think is our time.

K: Well, at the time I had given it -- I spoke to you was about ten minutes of two our time, or five minutes of two our time, Mr. Secretary.

HMJr: That's right.

K: I had sent it over to Loree at -- my telephone call was -- London, one twenty-five; I got through at one thirty-five, one forty.

HMJr: Yeah.

K: I had it typewritten, I sent it over -- Loree -- I sent word to him to -- he was away at lunch and to call me. He called me before I went into the Board meeting at five minutes after two. He said he would put it out at once and he sent word in to me at the Board meeting about two minutes -- twenty minutes after two that -- it had gone out and sterling was going up.

HMJr: Well.....

Harrison: So I don't think you'll find there's any gap on the time, Henry.

HMJr: Well, the point is, my complaint primarily, basically, is with the British Treasury.

H: Yeah.

HMJr: I wanted you to know what I told Butterworth.

H: Yeah.

HMJr: And what I asked Butterworth to tell them.

H: Yes.

HMJr: That this -- we should -- in the price at \$4.02 -- or let's say \$4.03 for Friday, we ought to know it now so that when the fellow picks up his morning paper tomorrow morning he sees the announcement.

H: Uh-huh.

HMJr: And doesn't get it twelve hours later. And.....

H: Did Butterworth know something about it?

HMJr: He had just gotten word to come to the Treasury and when I called him, which is about fifteen minutes ago, he knew nothing about it.

H: Uh-huh.

HMJr: Which is terrible!

H: Yeah.

HMJr: And I called him this morning and asked him to try to find out. See?

H: Yes.

HMJr: And -- but I -- I wanted to -- you to know what I told him to tell the Treasury, that anything like this in the future, that under the Tripartite, it should be from one Treasury to another and at least the night before so that they can ask us to get this thing out.

H: Just -- just a minute. (Talks aside.) Knoke's -- (to Knoke) You can go ahead -- you explain that.

Knoke: Mr. Secretary, this is -- as far as we're -- as far as I can see not the Tripartite. As a matter of fact, it's preferred treatment for Americans.

Neither the Dutch, nor the Belgians, nor the Swedes get this, so it is not a -- a Treasury decision, - neither is it Tripartite; it's something that they have probably in -- under pressure of events doctored up in order to help out -- to -- to avoid criticism from Washington.

HMJr: Well.....

K: Really, it's -- as I see it, it's -- it's an action taken by them to -- to help our business - give us preference over everybody else.

HMJr: Well, I think for the British Government's announcement to go out through a man like Loree and -- I think it's terrible!

K: Well, but, Mr. Secretary, this is not -- this is not a Government announcement. It is -- let me recall to you what I -- I called up for the purpose of asking whether -- asking Bolton whether I could drop a hint to the market of what he had told me before; namely, that \$4.02 was the rate at which exchange would be set aside -- demands for the -- for the exchange would be set aside for -- for Americans. I said that some such announcement -- some such hint to the market would help, and I called them - I told them the rate was down and he knew why I called, and he said, "Why don't you tell to your -- tell your bank that what I told you this morning is a fact - namely, that Americans can get exchange"? It was -- I've.....

HMJr: Well you -- as I understand it, you called when Archie -- at Archie Lochhead's suggestion.

K: Well, I called the first time. The second time I -- I -- I called.....

HMJr: Ah.....

K: The first time when -- when Archie suggested it; when the market broke further I -- I put in a call, a second call, which was about one o'clock. And at that time I said to -- to Archie, "I'm going to call them again, what do you think of it? I have put in a call, what do you think of it? We'll -- we'll -- I'll ask -- I'll see what I can get -- on that -- that statement from them - that assurance."

HMJr: Well, I want you to know, all around I've never seen -- I just can't believe that the British Government wants a thing handled like this and I know I don't want it handled like this, and I don't want anything to do with handling a thing in this way. I can't have any part of it. And I -- I've -- when I hear again from Butterworth -- he's now at the British Treasury -- I'll call you back and let you know what he says.

Harrison: First rate.

HMJr: But -- I mean, it's the lapse of time and everything -- I mean, I just can't understand that they'd do business in this manner. I mean -- if they knew it was going to be \$4.02, why didn't they tell us so last night? But let's -- when I hear from them again I'll give you another ring.

H: First rate.

Knoks: Mr. Secretary, may I say one thing?

HMJr: You can say two things.

K: The \$4.02 rate is the one that -- that was announced by them on September the third. That is not a new rate.

HMJr: Well.....

K: At that time they -- they quoted -- the British exchange, the -- the day they opened after September fourth as of September five, they quoted at a certain rate nine foreign exchanges, among them the dollar and quoted \$4.02 to \$4.06 for the dollar.

HMJr: There's no argument about that but the fellow that -- that did business at \$3.77 today didn't know that it was \$4.02 and that fellow must feel pretty sick tonight.

K: Oh, yes. Yes.

HMJr: Well, and -- and between us we have to take the blame. And I -- I just don't want it to happen in this helter-skelter haphazard way again. And, as I say,

I -- I blame the British Treasury. I think it's terrible!

Harrison: Yeah. Well, I don't see how there's any of blame attached to any of us at all.

HMJr: Ah -- I -- I -- we're not -- I mean, we can't do business unless they give us orders, but they should give us orders the night before. Well.....

H: Well.....

HMJr:I'm talking.....

H: Let us know what you hear from Butterworth.

HMJr: I'll let you know and -- and I want to let you know just what I did and -- so that I wouldn't be saying one thing to Butterworth and -- and you not knowing it.

H: Yeah.

HMJr: O.K.?

H: All right. First rate. Thank you.

HMJr: Thank you.

September 14, 1939
4:58 p.m.

Butter-
worth:

I have a written message for you from the Chancellor of the Exchequer.

H.M.Jr:

Yes.

B:

Shall I read it?

H.M.Jr:

Yes, we'll take it down. Go ahead.

B:

"I understand that you have expressed apprehension at the fact that quotations for sterling in New York have appeared at a figure some eighteen cents below the control price."

H.M.Jr:

Yes.

B:

"It would be over-optimistic to expect that with exchange control in operation he thought that the black market can be altogether prevented. We have in fact, that requirement for dollars in London of Americans freely and we assume that sterling on offer in New York must be sterling offered by other neutrals, whose demands we have not -- we were not ready to meet in full or by speculators.

"We should be glad of any further information which you can obtain as to the size of amounts on offer. We assume here that small amounts are being offered on the thin market. To prevent such transactions altogether it would be necessary either for us to meet all demands for dollars from all neutrals, which we are not in a position to do, or alternatively to put blocs-- complete blocs on every standing account owned by foreigners in London. This would *inter alia* mean that we should refuse to furnish Americans in London with dollars, and, in fact, prevent them from using their sterling balances for any purpose whatever without express permission.

"We did, in fact, consider the general question in the first instant, but rejected the solution which I am still quite reluctant to adopt. I should prefer to see matters develop for a few days at any rate, and then, if necessary, consult you again. We have narrowed our spread and are now quoting \$4.02 and \$4.04 where we propose to stay for the present anyhow."

H.M.Jr:

Is that the end?

B:

That's the end, sir.

- 2 -

- HMJr: Well, when I get through I'm going to let you repeat it to Cochran. He'll take it down himself, see? I've got it here but I want to make sure.
- B:
- HMJr: What's that?
- B: The Knoke conversation, and they said they were awfully sorry if anything had occurred which had caused difficulty and they hoped that you would overlook the matter in view of the strain under which everyone here is working due to the outbreak of war.
- HMJr: Well, I appreciate that and I'm naturally trying to be as understanding as possible. Of course we find that - they said themselves they handled the matter in a very unsatisfactory way, but that's our worry at this end. I mean there was the lapse of an hour from the time they got it until it was on the news ticker. In the meantime this special banking committee had this information.
- B: Yes.
- HMJr: Which is very unsatisfactory to the man who wants to cover his commercial transactions. I mean, they called me at ten minutes of one my time. It wasn't on the Dow Jones ticker until ten minutes of two.
- B: Yes.
- HMJr: In the meantime, for over one hour the Loree committee had this information.
- B: The Treasury also thought - you see what happened in these days is that every day about five or six o'clock London time, there's a meeting between the high Treasury and the high Bank of England officials. At their noon, when Knoke telephoned there was only Bolton and nobody else around. They really didn't have the answer to the question. As they were all in a meeting discussing this message to you and other things.
- HMJr: Yes. Well now, here's the point. I don't think, with all due respect, I don't think that the Chancellor of the Exchequer quite understands what happened here and I'm going to ask the men, I'm going to leave here in a minute or two and they can use my phone, or they can do it in their own room, to explain to you what happened at this end.

B: Yes, that's -

H.M.Jr: Because all I'm trying to do is to correct it so it won't happen again.

B: Yes, sir.

H.M.Jr: From the standpoint of the British.

B: Yes.

H.M.Jr: And I - this statement which you've read to me, I can't use that publicly, and I wish that they would give me something that I could announce tomorrow morning to the world as to the \$4.02.

B: Yes.

H.M.Jr: But I don't see that - anything that you've given me that I can announce.

B: No I don't think it was intended for that purpose.

H.M.Jr: I see. Well now I tell you what I think I'll do. You'd better read this over the phone again to Cochran. Cochran and Lochhead can explain to you what happened at this end so that you'll understand it, and tomorrow morning you can explain it to them.

B: Yes.

H.M.Jr: But have I made myself plain. Even now I've got nothing that I can tell the newspapers about \$4.02. I've got nothing to tell them, and the same thing may happen tomorrow.

B: Yes, I shouldn't be surprised if it did. I think that's probably bound to happen. That's a sort of temporary condition at anyrate.

H.M.Jr: Well, will you formally thank the Chancellor for this message. I'll give it careful consideration and if there is any answer why I'll give it to you.

B: Right.

H.M.Jr: I won't attempt to answer tonight, but I'll let you talk to the men and let them give you the technical explanation of what happened at this end and then tomorrow you can give it to them. I don't think he quite understands.

B: Yes.

H.M.Jr: And we have to rely on you to get our information to the British Treasury because we don't seem to have any other channel and of course as far as I'm concerned I'd rather work through you.

B: Yes, well I think it's much better to keep it -

H.M.Jr: Hello.

B: I think it's much better to keep it in one channel.

H.M.Jr: Well, you get the significance of my remarks.

B: Yes, I do.

H.M.Jr: What?

B: I do indeed.

H.M.Jr: All right. Now they'll go back to their room and talk to you, and if - hello, hello, - don't expect any answer from me tonight. We may have one for you in the morning.

B: All right.

H.M.Jr: But they will give you the technical explanation.
All right. Just hold on a minute. (talking aside)

Just a minute.

Operator: Operator.

H.M.Jr: Give this -

Hello.

SEP 14 1939

Dear Mr. President:

There is attached hereto a proposed reply to the letter which Senator Bankhead addressed to you on August 22nd requesting your cooperation in the development and passage of a bill for re-adjusting the principal and rearranging maturity and interest rates of existing debts secured by mortgages on farm plants and farm homes.

There have been a number of suggestions put forth by various interests from time to time with respect to the manner in which this can be accomplished. Many of these proposals are briefly summarized on pages 3 and 4 of the Senator's letter, and you will probably recognize that some of these are proposals which had been made before and obviously cannot form the basis for any lasting solution of the farm mortgage problem.

I believe a noncommittal reply to the Senator expressing your cooperation in a practical solution which does not impose an undue burden upon the Treasury may answer the purpose at this time.

You may also desire to forward copies of the correspondence to Secretary Wallace, Governor Hill and me so that some study

File to Mr. Thompson

By hand

- 2 -

can be given to the matter to enable comment or suggestions to be made upon any bill which the Senator may prepare for introduction in the next session of the Congress.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

WTH/gmm
9/7/39

THE WHITE HOUSE
WASHINGTON

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August 25, 1939

MEMORANDUM FOR

ACTING SECRETARY JOHN W HANES

For preparation of reply.

F. D. R.

Enclosure

United States Senate

COMMITTEE ON APPROPRIATIONS

Jasper, Alabama

August 22, 1939

The President
The White House
Washington, D. C.

Dear Mr. President:

One of the best accomplishments of your leadership has been reductions in interest rates and the growth of public sentiment for additional results along the same line. So long as the present proportion of the national income is required for payment of interest on public and private debts there can be no real liberty of economic activities by the great creditor class of the people.

Fortunately, you have long since realized and often expressed the urgent need of reducing interest rates. The Federal Housing Administration, the Home Owners' Loan Corporation, and other agencies of your Administration have greatly aided in bringing about a reduction in interest rates on urban homes. The Farm Credit Administration and the Farm Security Administration have made some progress in reducing rural mortgage interest rates. The interest rate fixed in the Bankhead-Jones Farm Tenant Act has only pointed the way to a desirable end.

There is a strong sentiment in Congress for the development of some plan to refinance farm mortgages at a low rate of interest and over a long period of amortization. This sentiment was manifested on several occasions by action of the Senate at the last Session, with particular reference to farm mortgagors who were about to lose their farms under mortgage foreclosure but who could probably be rescued with a lower interest rate and reduced annual principal payments.

THE CLERK, CHIEF CLERK
 FREDERICK HALL, CLERK
 ARTHUR P. HVE, M. DANC.
 JOHN G. THOMAS, JR., CLERK
 STILES BRIDGEMAN, JR., CLERK
 HENRY LAMONT LINDSAY, JR., CLERK
 MURPHY C. HILL, CLERK
 ROBERT A. TAFT, CLERK
 EDWARD H. SMITH, CLERK
 WALTER B. SMITH, CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

#2. The President

August 22, 1939

With restricted markets and low agricultural prices it is apprehended that a constantly increasing number of farmers may become tenants, if the present debt obligations are not readjusted.

I am a member of the following Senate committees which deal with legislation relating to agriculture and government credits and the appropriation of government money. Every phase of the farm mortgage problem is within the jurisdiction of at least one of my committees, which are as follows:

- Agriculture and Forestry
- Banking and Currency
- Appropriations
- Irrigation and Reclamation (Chairman)

For some time I have been giving consideration to the importance of working out a comprehensive program for refinancing existing farm mortgages with amortization over a period of from twenty-five to forty years and with a rate of interest comparable with the interest rate provided for in the so-called "Lending" bill. I hope you are interested in following this subject in a large way. The factor of first importance is the age-old one, "How can it be financed?" If you will answer that question, working out administrative machinery will be relatively an easy task.

You have a list of legislative accomplishments in the domain of economic, social, humane and other activities that is without equal under any other Administration in all the history of our republic. A sound plan for

FRANCIS HALE, MAINE
FRANCIS F. WYLLIE, N. CAROLINA
WILLIAM B. WOODWARD, JR., ILL.
STEFAN W. BRIDGES, N. H.
HENRY CABOT LODGE, N. H.
WALTER C. HILLMAN, OHIO
WALTER A. TAFT, OHIO

United States Senate

COMMITTEE ON APPROPRIATIONS

#3. The President

August 22, 1939

readjusting the principal and rearranging maturity and interest rates of existing debts secured by mortgage on farm plants and farm homes, presents, in my opinion, the biggest economic, social and good citizenship problem now left to occupy your attention and to challenge your resourcefulness.

Applying Paul's vision, there stands a multitude of farmers and their families praying you, "Come over into Macedonia and help us".

In setting up new agencies and employing new procedure, it may be found advisable to retire the outstanding bond issue of the Federal Land banks. The following, among other plans, should be explored:

1. The establishment of a new Rural Credit Banking system.
2. The insurance of farm mortgages similar to the present FHA authorization on urban property.
3. The creation of a Rural Mortgage Corporation with capitalization and power similar to the Reconstruction Finance Corporation.
4. The creation of a Federal Mortgage Corporation with power and capital to create markets for farm mortgages or bonds secured by such mortgages, and, if necessary, to engage in participations with banks, loan companies and individuals.
5. Guarantee of interest if it is decided that payment of principal should not be guaranteed.

WILLIAM WALLACE, VA., CHAIRMAN
 GEORGE W. BROWN, VA. 1ST DIST.
 JOHN C. HANCOCK, VA. 2ND DIST.
 JOHN H. HANCOCK, VA. 3RD DIST.
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United States Senate

COMMITTEE ON APPROPRIATIONS

#4. The President

August 22, 1939

6. The issuance of baby bonds secured by farm mortgages.
7. The issuance of baby bonds with legal tender power, with limitations on the amount tenderable in a single transaction and on the total amount to be issued.
8. Provide for the use of such bonds and of farm mortgages as reserves by banks with the Federal Reserve Bank system.

Readjustment and reduction of existing indebtedness secured by farm mortgages should be emphasized.

A plan for variable payments would be tremendously helpful if it can be done without undue injury to the ready marketing of the securities.

It is my purpose to have a bill ready for introduction when Congress meets in January. I shall be pleased to have your hearty cooperation in the development of the proposed refinancing plan, the preparation of the bill and its passage.

Sincerely,

W. R. Borah

MEMORANDUM FOR SECRETARY MONTGOMERY

I have sent on to Senator Rankin a reply to his letter of August 22nd and am forwarding copies of the correspondence to Secretary Wallace, Governor Hill and you. It may be desirable to do some work along these lines or to crystallize any work already done to make data available if the Congress should actively give consideration to this subject.

Enclosures

WTH/gmm
9/7/39

MEMORANDUM FOR GOVERNOR HILL:

I am enclosing copies of correspondence with Senator Bankhead and a letter from Secretary Mergenthau, which are self-explanatory. It may be desirable to do some work along these lines or to crystallize any work already done to make data available if the Congress should actively give consideration to this subject.

Enclosures

WTH/gm
9/7/39

MEMORANDUM FOR SECRETARY WALLACE:

I am enclosing copies of correspondence with Senator Rankhead and a letter from Secretary Morgenthau, which are self-explanatory. It may be desirable to do some work along these lines or to crystallize any work already done to make data available if the Congress should actively give consideration to this subject.

Enclosures

WTR/gm
9/7/39



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
PR 841.001 George VI

September 15, 1939

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith a copy of a note from the British Ambassador at Washington, dated September 4, 1939, conveying an expression of appreciation of the British Government for the arrangements made by Federal, State and local authorities in connection with the recent visit of Their Britannic Majesties to this country.

An appropriate acknowledgment of the Ambassador's note has been made by the Department of State.

Enclosure:

From British Ambassador,
September 4, 1939.

fw

BRITISH EMBASSY,
WASHINGTON D.C.
September 4th 1939.

No. 388.

Sir,

I have the honour to inform you that I have been instructed by His Majesty's Principal Secretary of State for Foreign Affairs to convey to the United States Government an expression of the most sincere appreciation of His Majesty's Government in the United Kingdom for the arrangements made in connexion with the recent visit of Their Majesties The King and Queen to this country.

The visit and the preparatory work involved must of necessity have imposed a very great burden, not only on your own Department but on many other departments of the United States Government and of certain States and local authorities. The success of the visit was in large measure due to the highly efficient manner in which these various departments had organised the arrangements. His Majesty's Government are most grateful for the assistance rendered by the State Department and the other Government departments, and would be grateful if their warm appreciation could be expressed to all the Federal, State and local authorities concerned.

I have the honour to be,

with the highest consideration,

Sir,

Your most obedient, humble

servant,

The Honourable
Cordell Hull,

Secretary of State of the United
States,

Washington, D. C.

LOTHIAN

September 15, 1939
10:53 a.m.

HMJr: Hello.

Operator: Secretary Hull has the Japanese Ambassador with him. He'd like to call you back.

HMJr: Ah -- all right. And then when he calls if I can't take it here I can take it in Mrs. Klotz' room.

O: All right.

HMJr: If he calls back call me twice.

O: Right.

HMJr: Will you?

O: Yes, I will.

HMJr: Right.

September 15, 1939
12:52 p.m.

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HMJr: All right, put him on.

Operator: Go ahead.

Isador
Lubin: Hello.

HMJr: Hello.

L: Lubin talking.

HMJr: What's the matter? Doesn't the car work?

L: (Laughs) Thanks so much.

HMJr: (Laughs)

L: There was a meeting this morning of the Commercial
Policy Committee over at the -- of which -- you
have a representative on it but Harry wasn't there.

HMJr: Yeah.

L: And I wanted to tell you what happened because it
goes -- it falls into your lap Remember
in March 1937 the Army went out and bought all this
wool and shot the price up 20 cents a pound in one
day.

HMJr: I remember.

L: Now, the President has asked Wallace to see what
we can do about war prices; they've run out of
sight.

HMJr: Yeah.

L: In the last ten days they've gone up more than the
total drop of the last two years.

HMJr: Yeah.

L: And I raised the question about the Army.

HMJr: Yeah.

L: And one of the boys hinted that the Army and Navy were out buying wool in tremendous quantities.

HMJr: Yeah.

L: Now, if the President wants to control the wool market, one way to do it is to keep the Army in control.

HMJr: I see.

L: I thought you might want to know that if you discussed anything at Cabinet meeting today.

HMJr: Well -- hello?

L: Yeah.

HMJr: Well, I'm tickled to death and here's the point. I have tried to get several different people who would come in as Assistant Secretary to take charge of Procurement.

L: Yeah.

HMJr: See?

L: Yeah.

HMJr: Hello?

L: Yes, sir.

HMJr: And carry out that thing that we worked on with you.

L: Yeah.

HMJr: But unfortunately the people haven't been acceptable to the President, but I am working very closely with Harry Collins but he is so busy doing the day to day things that he hasn't got time to do this kind of thing.

L: Yeah.

HMJr: And -- ah.....


L: Well, I know one thing, if the Army got out of the market that we could stop -- I'm sure we can stop the present rate of increase.

HMJr: Well, I will use this at Cabinet and I'm tickled to death to get this thing and I hope to see you next week.

L: All right. Swell.

HMJr: Thank you.

L: Thanks.



TREASURY DEPARTMENT
WASHINGTON

September 15, 1939.

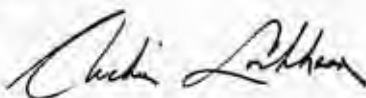
My dear Mr. Secretary:

In accordance with the several conversations which we have had beginning last March, I am now submitting to you my resignation as Technical Assistant.

I shall remember with the greatest pleasure the five years during which I was privileged to work with you, and I leave that association with real regret. I particularly appreciate your kindness in recognizing the personal considerations which have induced me to return to private employment.

If from time to time you wish to call on me in any way, I shall feel honored to be of service to you.

Sincerely,



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

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, September 15, 1939.

Press Service
No. 18-78

Secretary Morgenthau today made public the following exchange of correspondence:

September 15, 1939.

My dear Mr. Secretary:

In accordance with the several conversations which we have had beginning last March, I am now submitting to you my resignation as Technical Assistant.

I shall remember with the greatest pleasure the five years during which I was privileged to work with you, and I leave that association with real regret. I particularly appreciate your kindness in recognizing the personal considerations which have induced me to return to private employment.

If from time to time you wish to call on me in any way, I shall feel honored to be of service to you.

Sincerely,

ARCHIE LOCHHEAD.

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

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September 15, 1939.

My dear Archie:

Although I have known for some months that you planned to leave the Treasury about this time, I accept your resignation with sincere regret.

I am deeply grateful to you for the loyal and able service you have rendered. In a field of Government activity which was uncharted when you entered it, you have established a record which will be a challenge to your successors. Your work has always been exacting and frequently has been of critical importance. That you have handled it so splendidly should be a source of pride to you. The Treasury has been fortunate to have had a person of your resourcefulness and integrity in a position of such responsibility, and I note with pleasure your offer to be of further assistance to the Treasury at any time we may need to call on you.

I am sure that you know how much I personally have enjoyed our relationship. May you find the greatest success and happiness in your new work.

Sincerely,

H. FORDENTHAU, JR.
Secretary of the Treasury.

Mr. Archie Lochhead,
Technical Assistant
to the Secretary,
Treasury Department,
Washington, D. C.

-000-

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 15, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *RMH*

In response to your request of yesterday, there are attached tables and chart showing weekly and monthly W. P. A. employment through August, 1939. According to a telephone check with W. P. A. late yesterday, these represent the latest figures available.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

191

Week ending	Number of Workers (In thousands)
1938	
December 3	3,287
December 10	3,241
December 17	3,186
December 24	3,124
December 31	3,094
1939	
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841 ^{a/}

Source: Works Progress Administration.
^{a/} Confidential.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

192

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551
July	2,200
August	1,841 ^{s/}

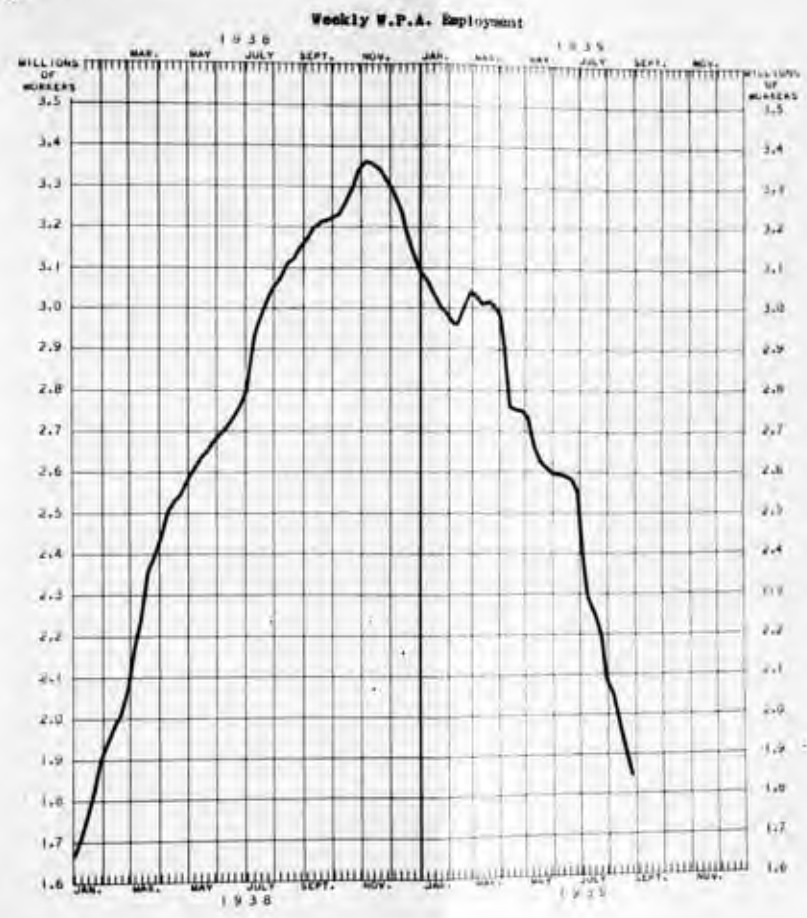
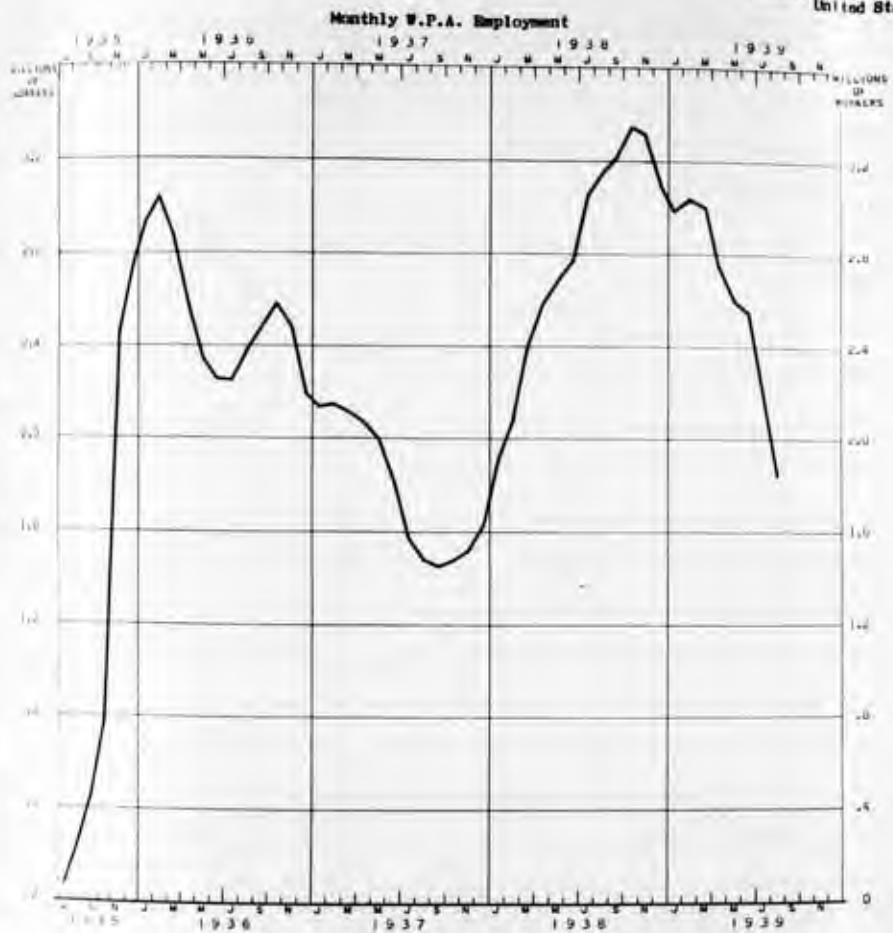
Source: Works Progress Administration.

^{s/} Confidential.

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

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

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Statement of amounts reimbursed Federal Reserve Banks from the Expenses of Loans appropriation for expenses incurred in connection with public debt transactions during the period January 1 to July 31, 1939.

	<u>Salaries</u>	<u>Other Objects</u>	<u>Total</u>
Boston	\$22,813.71	\$13,525.14	\$36,339.15
New York	79,146.98	32,521.83	111,668.81
Philadelphia	27,767.70	14,228.72	41,996.42
Cleveland	22,899.46	13,374.38	36,273.84
Richmond	14,212.35	11,381.16	25,593.51
Atlanta	14,403.71	9,727.96	24,131.67
Chicago	50,292.63	25,050.36	75,342.99
St. Louis	18,919.74	9,868.28	28,788.02
Minneapolis	20,128.55	8,702.29	28,830.84
Kansas City	24,119.62	11,725.58	35,845.20
Dallas	15,617.66	7,395.71	23,013.37
San Francisco	<u>26,975.54</u>	<u>14,843.29</u>	<u>41,818.83</u>
Total	\$337,297.65	\$172,345.00	\$509,642.65

September 15, 1939

Payments to Federal Reserve Bank of New York
on account of expenses of the
Foreign Exchange Division

<u>1939</u>	<u>Voucher</u> <u>No.</u>	<u>Gold Reserve</u> <u>Act</u>	<u>Voucher</u> <u>No.</u>	<u>Silver</u> <u>Purchase</u> <u>Act</u>	<u>Total</u>
January	323	\$ 4,064.80	324	\$ 4,193.96	\$ 8,258.76
February	333	4,370.94	332	3,679.61	8,050.55
March	352	4,782.14	351	2,902.96	7,685.10
April	362	5,105.42	361	3,025.96	8,131.38
May	371	5,009.25	370	3,102.67	8,111.92
June	376	4,876.72	375	2,938.80	7,815.52
July	386	4,670.56	385	3,232.74	7,903.30
Total		<u>\$32,879.83</u>		<u>\$23,076.70</u>	<u>\$55,956.53</u>

E.P. O'Sullivan

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50
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PAYMENTS TO THE FEDERAL RESERVE BANK OF NEW YORK FOR THE MONTH OF JULY, 1959
ON ACCOUNT OF REIMBURSEMENT OF EXPENSES OF EXCHANGE SECTION, FOREIGN
EXCHANGE DIVISION

September 13, 1959

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Name of Officer	Title or nature of work	Monthly Salary	Yearly Salary	Gold Reserve Act percentage	Silver Purchase Act percentage	Total percentage	Monthly Dollars Gold Reserve Act	Monthly Dollars Silver Purchase Act	Total
<u>Chief supervision</u>									
	Asst. Vice Pres. Manager	1,000.00	12,000.00	29.20	18.80	47.00	382.00	188.00	470.00
		666.66	8,000.00	25.60	17.20	42.00	172.00	114.87	286.87
<u>Accounting</u>									
	Record Clerk	151.86	1,822.00	5.00	4.71	10.71	9.10	7.14	16.24
	Senior Clerk	250.00	3,000.00	2.00	1.87	3.87	3.00	3.93	6.93
	Record Clerk	185.00	2,220.00	2.94	2.32	5.26	5.44	4.29	9.73
	Record Clerk	225.00	2,700.00	1.32	1.04	2.36	2.97	2.36	5.33
	Record Clerk	125.00	1,500.00	6.08	4.76	10.84	7.60	6.95	14.55
	Subject File Clerk	180.00	2,160.00	7.45	5.84	13.29	13.75	10.80	24.55
<u>General Maintenance</u>									
	Senior Clerk	250.00	3,000.00	5.28	4.15	9.43	13.20	10.38	23.58
	Junior Clerk	130.00	1,560.00	2.82	2.19	5.02	3.71	2.82	6.53
	Senior Clerk	225.00	2,700.00	2.22	1.78	4.00	5.00	4.01	9.01
	Payroll Clerk	208.32	2,500.00	3.38	2.65	6.03	7.04	5.52	12.56
	Asst. Paymaster	250.00	3,000.00	1.36	1.07	2.43	3.40	2.62	6.02
<u>Security</u>									
	Guardman	150.00	1,800.00	10.82	5.99	16.81	16.23	8.99	25.22
	Guardman	150.00	1,800.00	10.82	6.00	16.82	16.25	9.00	25.25
	Guardman	150.00	1,800.00	10.82	6.00	16.82	16.25	9.00	25.25
<u>Shipping and Custody</u>									
<u>Supplies</u>									
	Junior Clerk	143.32	1,720.00	3.45	2.70	6.15	4.24	3.87	8.11
<u>Positions not Stated</u>									
	Code Clerk	155.00	1,860.00	14.87	11.21	26.08	19.26	15.13	34.39
	Code Clerk	201.86	2,422.00	14.526	11.256	25.782	28.09	22.70	50.79
	Code Clerk	225.00	2,700.00	14.266	11.208	25.474	32.10	25.22	57.32
	Chief	366.66	4,400.00	14.822	11.694	26.516	54.57	42.88	97.45
	Code Clerk	170.00	2,040.00	15.100	11.87	26.978	23.68	20.18	43.86
	Foreign Exch'g Clerk	155.00	1,860.00	45.00	55.00	100.00	69.70	85.25	154.95
	Typist	75.00	900.00	75.7	30.15	105.85	55.83	15.11	70.94
	Typist	125.00	1,500.00	4.78	—	4.78	5.95	—	5.95
	Typist	95.00	1,140.00	51.00	48.00	100.00	48.45	46.55	95.00
	Typist	100.00	1,200.00	51.00	48.00	100.00	51.00	49.00	100.00
	Foreign Exch'g Clerk	162.32	1,948.00	74.00	26.00	100.00	120.86	48.46	169.32
	Foreign Exch'g Clerk	125.00	1,500.00	71.00	29.00	100.00	131.55	53.85	185.40
	Foreign Exch'g Clerk	125.00	1,500.00	.68	—	.68	1.26	—	1.26
	Foreign Exch'g Clerk	165.32	1,984.00	98.00	2.00	100.00	164.95	3.07	168.02
	Junior Clerk	100.00	1,200.00	53.34	53.33	100.00	53.34	53.33	106.67
	Foreign Exch'g Clerk	195.00	2,340.00	30.00	70.00	100.00	59.50	156.50	216.00
	Typist	85.00	1,020.00	48.00	44.84	92.84	41.43	39.81	81.24
	Foreign Exch'g Clerk	225.00	2,700.00	64.00	36.00	100.00	144.00	61.00	205.00
	Junior Clerk	123.32	1,480.00	9.31	15.07	24.38	12.41	20.09	32.50
	Junior Clerk	123.32	1,480.00	27.13	43.35	70.48	36.17	64.46	100.63
	Chief	275.00	3,300.00	51.45	40.41	91.86	192.85	161.54	354.40
	Assistant Chief	258.32	3,100.00	50.00	50.00	100.00	129.16	129.16	258.32
	Messenger	75.00	900.00	13.33	13.33	26.66	10.01	10.00	20.01
	Foreign Exch'g Clerk	195.00	2,340.00	65.00	35.00	100.00	122.25	76.68	198.93
	Foreign Exch'g Clerk	178.32	2,140.00	43.00	57.00	100.00	76.68	101.64	178.32
	Secretary	150.00	1,800.00	25.00	17.50	42.50	30.70	25.00	55.70
	Foreign Ex. Investigator	400.00	4,800.00	100.00	—	100.00	400.00	—	400.00
	Junior Clerk	143.32	1,720.00	—	100.00	100.00	—	143.32	143.32
	Foreign Exch'g Clerk	158.32	1,900.00	72.00	28.00	100.00	113.99	44.33	158.32

PAYMENTS TO THE FEDERAL RESERVE BANK OF NEW YORK FOR THE MONTH OF JULY, 1939
ON ACCOUNT OF REIMBURSEMENT EXPENSES OF EXCHANGE SECTION, FOREIGN
EXCHANGE DIVISION

Sheet #1

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Name of Officer	Title or Nature of Work	Monthly Salary	Yearly Salary	Gold Reserve Act percentage	Silver Purchase Act percentage	Total percentage	Monthly Dollars Gold Reserve Act	Monthly Dollars Silver Purchase Act	Total	
		\$	\$				\$	\$	\$	
	Foreign Exch'ge Clerk	185.00	1,680.00	100.00	--	100.00	185.00	--	185.00	
	Foreign Exch'ge Clerk	168.32	1,950.00	61.00	39.00	100.00	102.68	65.64	169.32	
	Stenographer	140.00	1,680.00	56.00	44.00	100.00	78.40	61.60	140.00	
	Foreign Exch'ge Clerk	225.00	2,700.00	65.49	34.01	97.50	142.85	76.52	219.37	
	Foreign Exch'ge Clerk	176.66	2,180.00	--	100.00	100.00	--	176.66	176.66	
	Junior Clerk	135.32	1,660.00	50.00	50.00	100.00	69.16	69.16	138.32	
	Foreign Exch'ge Clerk	175.00	2,100.00	74.00	26.00	100.00	129.50	45.50	175.00	
	Accountant	241.66	2,900.00	10.00	15.00	25.00	24.17	36.25	60.42	
	Foreign Exch'ge Clerk	175.00	2,100.00	38.00	62.00	100.00	66.50	108.50	175.00	
	Junior Clerk	118.32	1,420.00	--	--	100.00	--	118.32	118.32	
	Typist	120.00	1,440.00	100.00	--	100.00	120.00	--	120.00	
	Typist	120.00	1,440.00	4.75	--	4.75	5.71	--	5.71	
	Messenger	110.00	1,320.00	43.32	48.86	92.18	47.65	55.75	103.40	
	Secretary	145.00	1,740.00	9.00	6.00	15.00	15.05	8.70	23.75	
	Messenger	110.00	1,320.00	28.92	37.68	96.60	64.81	41.45	106.26	
	Foreign Exch'ge Clerk	165.00	2,220.00	1.87	--	1.87	2.46	--	2.46	
	Utility	119.21	1,430.00	14.93	--	14.93	17.60	--	17.60	
Contributions to Retirement System of the Federal Reserve Bank 5.12%								83.29	15.53	
								1.54	1.21	
								.71	.55	
								1.66	1.30	
								2.50	1.36	
								.25	.20	
								8.23	6.47	
								<u>170.89</u>	<u>114.43</u>	
								209.07	141.07	350.14
Dow Jones Compensation Insurance Premiums								.80	.13	
								.03	.02	
								.01	.01	
								.05	.02	
								.25	.12	
								.13	.11	
								<u>2.59</u>	<u>1.67</u>	4.26
								2.28		
Total salaries								4,037.89	2,893.42	6,931.31
Rent								71.57	39.71	111.28
Tolls								<u>3.62</u>	<u>2.85</u>	6.47
								75.19	42.56	117.75
Medical Services								10.72	6.40	17.12
Repartition of Cost of Maintaining Space								243.97	191.77	435.74
Rental of furniture and equipment								26.79	21.05	47.84
Rental of telephones and tolls								27.35	21.92	49.27
Cables								65.61	2.76	68.37
Repair								2.00	--	2.00
Stenographic Charge								34.59	27.18	61.77
Printing and Stationery								15.63	13.43	29.06
Office Supplies								12.83	9.00	21.83
Ticket Service (Dow Jones)								100.00	--	100.00
Taxi								--	1.25	1.25
Totals								4,670.55	3,222.74	7,893.30

September 15, 1939

10:55 am

Present:

Ambassador Espil
Mr. Hanes

HM, Jr: Terribly sorry to keep you waiting.

Ambassador: You had a very exciting trip, to say the least.

I had a telephone call from the Treasury Department and the Secretary of the Treasury wanted me very specially to come to you and thank you for all the cooperation that we have had. We still have it on your part. They want to know, since Mr. Lochhead is leaving the Department, how they have to proceed to continue with

HM, Jr: Merle Cochran.

Ambassador: Merle Cochran. They know Cochran. I just met Mr. Cochran.

HM, Jr: Cochran -- C-o-c-h-r-a-n. He was First Secretary in Paris.

Ambassador: He said he would like very much to chat with anyone as far as he was in position. It will be very helpful to us particularly what is going on in England.

HM, Jr: We are doing the best we can.

Ambassador: Naturally.

HM, Jr: It is not so easy. But we are doing the best we can.

Ambassador: They asked me something, that maybe you can answer, in regard to these measures that have

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been taken -- the French and British -- about the values, about foreign holdings of their citizens, in stocks and shares of what they have in New York. In regard to the measure. In regard to the values and shares that the British or French citizens have in America. The situation of their authority to take hold of those values and sell those values. Of course, we have the same problem there and they asked me if I would get some information, maybe something published of the mechanics.

HM, Jr.: If I am correct, they have not worked out their mechanics as far as this country goes. We have asked them -- both the French and the English -- who is there in the United States that we can talk to and there is nobody.

Ambassador: Because we have the same trouble.

HM, Jr.: There is nobody.

Ambassador: There is nobody.

HM, Jr.: They have nobody who has that authority, who I can talk to, who knows what they are going to do with American securities which they have taken over.

Ambassador: They have already, I will say, in a certain way attached those securities?

HM, Jr.: So I understood.

Ambassador: The individual cannot dispose of them?

HM, Jr.: I asked Lord Lothian, last week, please to let me know who I can talk to. I have had no answer.

Ambassador: Tell me. Did that happen in the last war, exactly the same thing?

Mr. Hanes: I don't think so. They did not have the same mechanics in the last war.

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Ambassador: I know, because at the end of the war the British Government attached, we will say, the property of their citizens abroad in order to mobilize funds.

HM, Jr: I am not sure. But to answer your question, there is nobody in the United States that I can go to and say "What are you doing?" You see? On securities.

Ambassador: Under those conditions, does that matter cause any problem to the American Government?

HM, Jr: Not while are markets are going up?

Ambassador: Yes.

HM, Jr: And, of course, from their standpoint and ours, it would be much better to appoint somebody while we have good markets, so it does not look as though they were worried, or we were, if our market goes down.

Ambassador: Are you trying to get some representative to explain that?

HM, Jr: I asked the British Ambassador please to tell his Government we would like somebody to talk to. I can't understand why they don't send anyone. He's a good fellow, but he's not up to this. He has no authority.

Mr. Hanes: That's exactly the situation. We don't know what they are going to do.

HM, Jr: We don't know anything.

Ambassador: All right. I will tell them that.

HM, Jr: What else can I do for you?

Ambassador: That's all.

HM, Jr: Any time, you know, I am always glad to see you. We will do the best I can. I either give

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you correct information or none.

Ambassador: Exactly! To me it is wonderful cooperation. Creates a wonderful feeling.

oOo-oOo

TREASURY DEPARTMENT

302

INTER OFFICE COMMUNICATION

DATE September 15, 1939

TO Secretary Morgenthau
 FROM Mr. Haas *EH*
 Subject: Possible reductions in Federal expenditures for agriculture due to rise in agricultural prices

The 1940 appropriation act for the Department of Agriculture provided funds for the activities of the Department approximately as follows:*

	(Millions)
Ordinary activities	\$ 147
Farm Tenant Act	47
Soil conservation payments	500
Sugar Act of 1937	48
Parity payments	225
Surplus commodities	<u>203**</u>
Total	<u>\$ 1,170</u>

This memorandum is concerned with an examination of these various activities in order to determine if the increases in commodity prices which have accompanied the outbreak of war may make it possible to reduce the scheduled expenditures.

In the category "ordinary activities", we have included the regular administrative expenses of the Department of Agriculture, the grants-in-aid provided through the extension service, the Forest Service, crop insurance, soil conservation research and demonstration projects, forest roads and trails and similar items. The soil conservation expenses here included should be distinguished from the outlays to farmers under the general soil conservation program.

* Excluding funds for public roads because of the transfer to the Federal Works Agency.

**Including \$90 millions estimated to result from the allocation of 30 percent of customs receipts.

Secretary Morgenthau - 2

It does not appear that the expenditures for what we have termed "ordinary activities" would be affected in any material way by the rise in prices of farm products. It is, of course, possible that some reductions could be made in these expenditures if conditions made it desirable to economize severely, but the level of agricultural prices would have little connection with the need or desirability of such undertaking.

The appropriation for the Farm Tenant Act is to provide funds for farm tenants to purchase farms. An improvement in agricultural prices might reduce the need for special assistance from the Government to enable tenants to buy farms. No immediate curtailment in the farm tenant program seems likely, however, except through pressure on Congress to alter the present policy.

The remaining categories -- involving \$976 millions -- all cover programs which are the direct outgrowth of a desire to improve the financial condition of farmers. If the present increases in farm commodity prices are not offset by increases in prices of things farmers buy, the financial condition of farmers should be considerably improved, and it should be possible within limitations to reduce the anticipated expenditures. The possibilities are considered in detail below.

I. Soil Conservation Payments

Under the soil conservation program, payments are made to farmers who "cooperate" by withholding part of their acreage from the growth of soil-depleting crops. Other payments are made for carrying out certain soil-building practices, such as the application of lime and fertilizer and the growing of soil-improving crops. The soil conservation mechanism of this program was adopted for legal reasons; the real purpose of the program is to restrict the production of commodities in a manner similar to that which the original AAA provided. The 1940 appropriation act provided almost \$500 millions for this activity.

This would seem superficially to provide one avenue for reduced Government expenditures. The recent rise in prices of agricultural commodities will definitely improve the financial position of farmers, since prices of goods farmers buy are not likely to move up as rapidly. However, although the statute gives the Secretary of Agriculture wide discretion in administering the program, it also states that the

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funds available for payments "..... shall be allocated among the commodities produced with respect to which payments or grants are to be computed" This may require utilization of all of the available funds, and if so, Congressional action would be necessary to reduce expenditures under this program. A legal study of the statutes might disclose, on the other hand, that the Secretary also has discretion over the total amount to be spent.

II. Sugar Act of 1937

Under this Act, payments are made to sugar producers who fulfil certain conditions, including the observance of marketing quotas. The 1940 act provided \$48 millions for this program. More than this amount is derived, however, from the excise tax on sugar which is estimated to yield \$62 millions in the fiscal year 1940.

On Monday, September 11, 1939, the President issued a proclamation temporarily suspending the sugar marketing quotas; and apparently the present intention is to suspend benefit payments to sugar producers after the 1939 program, if quotas are not reinstated. The excise tax will continue in effect unless action is taken by Congress.

III. Parity Payments

In the case of five commodities -- corn, wheat, cotton, tobacco and rice -- payments are made to farmers to compensate them partially when prices are below the parity price. The parity price for these commodities is based upon the 1909-14 average (1919-29 for tobacco), and is defined as "that price for the commodity which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period." Payments may be made only to farmers who are cooperating under the agricultural conservation program.

Under the 1940 appropriation act, \$225 millions is made available for this program. This sum is to be apportioned to the five commodities in proportion to the amount by which the farm income from each fails to reach the parity income. The rate of payment may not exceed the amount by which the average farm price of the commodity is less than 75 percent of the parity price.

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A comparison of the parity price and the actual farm price for the five commodities as of August 15, 1939 is shown in the following table:

	: Parity : price	: 75% of : parity : price	: Actual : farm : price
(cents)			
Cotton (lb.)	15.5	11.6	8.7
Corn (bu.)	80.2	60.2	45.7
Wheat (bu.)	110.5	82.9	54.5
Rice (bu.)	101.6	76.2	57.9
Tobacco (flue cured) (lb.)	17.8	13.4	16.6

Both parity prices and actual farm prices are computed from reports covering around the 15th of the month, so no figures are available for later than August 15. On the assumption, however, that farm prices in recent weeks have risen to the same extent as central market prices, we have made estimates of the approximate farm prices of the several commodities as of September 13. No estimate was made for tobacco, inasmuch as the crop is just beginning to be marketed. Although tobacco prices recently have been weak, due principally to the withdrawal of foreign buyers, the price of tobacco has been above 75 percent of the August parity.

It should be emphasized that parity prices fluctuate with the prices of the things that farmers buy. Consequently, farm prices should only be compared with parity prices as of the same date. Inasmuch as the latest figures available for parity prices are those for around August 15, however, we have used them in the following table for comparison with the estimated farm prices as of September 13. The discrepancy is believed to be negligible.

	: August : parity : price	: 75% of : parity : price	: Estimated : farm price : Sept. 13
(cents)			
Cotton (lb.)	15.5	11.6	8.8
Corn (bu.)	80.2	60.2	59.8
Wheat (bu.)	110.5	82.9	73.0
Rice (bu.)	101.6	76.2	84.6

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It will be noted that rice, as well as tobacco, is above 75 percent of the parity price, so that for these commodities no parity payments are, under present conditions, called for. Corn is at practically 75 percent of the August parity price, but cotton and wheat are still well below.

This would indicate that if the present situation continues through the marketing season, parity payments would be necessary only in the case of cotton and wheat. This might result in reducing the total expenditures for parity payments, but all of the funds available could be applied to these two commodities, and would doubtless be so applied if wheat and cotton prices remain at their present relation to parity prices. The statute seems to require the Secretary to make parity payments to the extent funds are available if farm prices of any of the five commodities are below 75 percent of parity. Savings are not likely in this program, therefore, unless cotton and wheat improve their position in relation to parity.

IV. Surplus Commodities

In order to take surplus commodities from the market, the Secretary of Agriculture is authorized to purchase them for distribution to the needy through the Federal Surplus Commodities Corporation. He also is authorized to promote the export of farm commodities by the use of export subsidies, which have been applied to wheat (including flour) and cotton. Both activities are financed by the allocation of 30 percent of customs receipts and the appropriation of an additional \$113 millions in the 1940 appropriation act.

Since the outbreak of war, export subsidies on wheat have been discontinued, but subsidies on cotton, which were just begun in July, have not been cut off. It would seem highly desirable to re-examine the cotton subsidy, since it is very doubtful that sales under present war conditions can be increased by this device.

Purchases of commodities by the Federal Surplus Commodities Corporation are by no means confined to staples -- which have received the greatest benefit from the outbreak of war. These purchases cover fruits, vegetables and dairy products as well, most of which have received little or no price stimulus from the war. Consequently, the purchases can be reduced only to a limited extent, unless the price rise extends to these commodities.

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V. Commodity Credit Corporation

Although its operating funds are not included in the Department of Agriculture budget, the Commodity Credit Corporation must be considered as part of the agricultural program. The funds of this Corporation are obtained from the sale of obligations to the public except for the \$100 millions in capital stock provided by the Government. Losses of the Corporation, however, are made up by the Treasury through the mechanism of making up any capital impairment once each year, as determined by an appraisal of assets and liabilities. The capital impairment this year, as determined on March 31, was \$120 millions, and last year, \$94 millions.

The purpose of the Corporation is primarily to make loans to producers to finance the carrying and orderly marketing of agricultural commodities. In practice, the Corporation has frequently loaned amounts in excess of the market value of commodities.

As of June 30, 1939, the Corporation had outstanding loans and commitments aggregating \$754 millions covering 14 different commodities, of which cotton amounted to \$562 millions, and corn, \$145 millions. The details are shown in the attached table. At the present time, the Corporation owns some 7 million bales of cotton, which it acquired by taking title to cotton covering all loans made prior to 1938.

The financial condition of the Corporation, in which the Treasury has an interest, is directly influenced by the level of commodity prices. In the case of cotton, for example, an increase in price of one cent a pound means a gain to the Corporation of about \$35 millions on the cotton to which it has title, and a reduction of about \$22 millions in potential losses on its cotton loans.

The rise in commodity prices may eliminate the possibility of a further impairment of capital, or even result in some return to the Treasury if the Corporation's net worth should rise above \$100 millions. It should be pointed out that even where no losses occur as a result of price declines, the assets of the Corporation are subject to impairment as a result of carrying costs, which in the case of cotton alone amount to about \$50 millions a year.

Outstanding Loans of Commodity Credit Corporation,
June 30, 1939

(In millions of dollars)

	:	Direct	:	Contingent	:	Total
Cotton		291.9		270.5		562.4
Corn		25.9		119.4		145.3
Wheat		10.0		2.7		12.7
Turpentine and rosin		14.7		-		14.7
Butter		9.0		-		9.0
Tobacco		3.6		-		3.6
Other		5.6		.4		6.0
Total		<u>360.7</u>		<u>392.9</u>		<u>753.6</u>

September 15, 1939

11:20 am

Present:

Mr. Hanes
Mr. Baillie
Mr. Foley
Mr. White
Mr. Stewart
Mr. Bernstein
Mr. Lochhead
Mr. Cochran
Mr. Duffield
Mrs Klotz

(Mr. Baillie handed the Secretary a copy of the message from the Chancellor of the Exchequer and a draft of the Treasury's reply thereto. Copies attached.)

Mr. Baillie: You have there, Mr. Secretary, the message from the Chancellor of the Exchequer underneath and the top one is our suggested answer.

HM, Jr: (Reading the draft of reply:)

"I appreciate your message of September 14th promptly answering my inquiry. I recognize the difficulty under existing circumstances of exchanging information promptly, although earlier advice to us yesterday would have prevented much confusion in the New York market for Sterling. We are studying the situation and I agree with your suggestion that it would be desirable to exchange further advices as the situation develops. We are attempting to obtain the information you ask as to amounts of Sterling on offer."

Is there anybody who disagrees with this?

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Mr. White: No, but upon reading it over if that "much confusion" shouldn't be changed to "some". Instead of "much confusion" to "some confusion". "Much" is too strong a word for the significance.

Mr. Foley: Why not leave off the adjective?

Mr. Bailie: The "much" expressed the way I felt.

Mr. White: There may have been much here.

Mr. Bailie: I think you are quite right.

Mr. White: "Confusion" is a stronger term than "much". Very definitely. Confusion in the markets.

Mr. Bailie: There was great confusion in the market yesterday. It was years since Sterling has gone down 25 points and rallied.

HM, Jr.: I think "would have prevented confusion" is all right.

Mr. Foley: Maybe we ought to change "prevent".

Mr. Bailie: I think "would have prevented considerable confusion".

Mr. Foley: "Considerable" instead of "much"?

HM, Jr.: I would just say "confusion". Let me have one word in the whole thing!

Mr. Bailie: O. K. It's out.

Mr. White: When you have confusion you are confused.

Mr. Bailie: We were confused.

Mr. Bernstein: The question is not whether there was confusion on the market. There was. The question is whether we could have prevented it and the way it is now phrased we could have prevented all the confusion.

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Mr. Foley: Considerable.

Mr. Bailie: I think considerable deserves to be there.

HM, Jr: For the record, Merle, when this thing is through, nobody has told the State Department what has been going on and this afternoon while I am at Cabinet I want you to go over, ask Mr. Gray in the absence of Mr. Feis whom you should tell. I want you to tell the whole story to somebody so it will get to Mr. Hull. But right after lunch go over and ask Gray. That's up to you.

Cochran: All right. I will go directly after lunch.

HM, Jr: Ask Gray whom they want in the absence of Feis to get this so Mr. Hull can be kept posted.

Mr. Bernstein: The reason for this phraseology is to give us time, three or four days from now, to ask some specific questions of someone as to what their purposes about this bootleg market are.

HM, Jr: Mrs. Klotz, five minutes to two I want a copy of this message, plus the answer, to take to Cabinet.

This thing should be phoned to Butterworth to save time and then confirmed by cable.

Cochran: You want that done before you go to Cabinet?

HM, Jr: Oh, yes. As soon as Ransom and the rest leave here why phone this to Butterworth so he can get it and then confirm it by cable, and then I also, after you have been to the State Department, have Pinsent come down and tell Pinsent the whole story, just what has happened.

First the State Department, then send for Pinsent and tell Pinsent the whole story. But the

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order is, you read this thing to Butterworth, then confirm it by cable, walk over to the State Department, bring Mr. Hull up-to-date through some person he designates, then send for Pinsent and bring Pinsent up-to-date.

Mr. Bailie: And then you ask Knoke as soon as he is through with his present occupation to give you whatever information he can have as to the amount of Sterling on offer today.

Mr. Cochran: On offer today?

Mr. Bailie: Yes.

Mr. White: We ought to proceed within the Treasury to get as much information about the type of offers, who are offering, because this is going to be a continual thing. Certain transactions which are perfectly legitimate. We ought to know about each type of Sterling offer, if possible, from now on.

Mr. Bailie: We may be able to ask the Federal Reserve to ask all their banks to furnish them with all the information possible.

September 14, 1939

MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE SECRETARY OF THE TREASURY

I understand that you have expressed apprehension at the fact that quotations for sterling in New York have appeared at a figure some 18¢ below the controlled price. It would be over-optimistic to expect that with exchange control in operation the formation of a black market can be altogether prevented. We have in fact met requirements for dollars in London of Americans freely and we assume that sterling on offer in New York must be sterling offered by other neutrals whose demand we were not ready to meet in full or by speculators.

We should be glad of any information you can obtain as to the size of amount on offer. We have assumed here that small amounts are being offered on a thin market.

To prevent such transactions altogether it would be necessary either for us to meet all demands for dollars from all neutrals which we are not in a position to do or alternatively to put complete block on every sterling account owned by foreigners in London.

This would inter alia mean that we should refuse to supply Americans in London with dollars and in fact prevent

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them using their sterling balances for any purpose whatever without express permission.

We did in fact consider the general question in the first instant but rejected this solution which I am still most reluctant to adopt.

I should prefer to see how matters develop for a few days at any rate and then, if necessary, consult you again. End.

We have narrowed our spread and are now quoting 402 and 404 where we propose to stay for the present anyhow.
END MESSAGE.

Corrected

I appreciate your message of September 14 promptly answering my inquiry. I recognize the difficulty under existing circumstances of exchanging information promptly, although earlier advice to us yesterday would have prevented considerable confusion in the New York market for Sterling. We are studying the situation and I agree with your suggestion that it would be desirable to exchange further advices as the situation develops. We are attempting to obtain the information you ask as to amounts of Sterling on offer.

I appreciate your message of September 14 promptly answering my inquiry. I recognize the difficulty under existing circumstances of exchanging information promptly, although earlier ~~advice~~ ^{considerable} to us yesterday would have prevented ~~such~~ confusion in the New York market for Sterling. We are studying the situation ~~carefully~~ and I agree with your suggestion that it would be desirable to exchange further advices as the situation develops. We are attempting to obtain ^{the} information you ask as to amounts of Sterling on offer.

THE PUBLISHED RELEASE ON
VALUE OF POUND STERLING

September 15, 1956.
9:00 a.m.

Present: Mr. Hanes
Mr. Lockhead
Mr. Bailie
Mr. Duffield
Mr. Stewart
Mr. Foley
Mr. Smith
Mr. Ronald Hanson
Dr. E. A. Goldenweiser
Mr. Chester Morrill
Mr. Chandler Morse
Mrs. Elyse
Mr. Cochran

Cochran: You have no objection to Mr. Morrill making some notes as this goes along?

E.A.G.: Please. After all, we are talking about your Federal Reserve Bank in New York and our fiscal agents. Mr. Knoke's memorandum is at 1:25. I mean we will go back afterward to a lot of stuff in the morning where we were trying to find out what was going on in sterling, see? Knoke telephoned, didn't he, at our request?

Cochran: That is right.

E.A.G.: Telephoned the first time and couldn't get anything.

Cochran: He had the report that they were buying these sterling balances, but Archie spoke to him a second time - or spoke to him then and said, "The market doesn't know about that."

E.A.G.: Then Archie....

Cochran: Then Knoke called England a second time and called us back at 12:50, called Archie back, and started reading the message which he had sent to Lorne.

E.A.G.: Let's see if I have this right. At 1:25, New York time, he heard from - when did he hear from the Bank of England?

Cochran: That was the second time. What is the hour he gave us.

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- H.M.Jr: At 1:25. He dictates a message to Mr. Loree and sends it to him, giving him this information that they will cover at 4.02. All the time the Exchange was selling at 3.77. At 2:00 o'clock, New York time, Loree acknowledged to Knoke that the telephone call was received and he had notified the Bank by telephone of this message. At 2:30, New York time, Mr. Loree gave the message to Dow-Jones. At 2:40, New York time, the information appeared on Dow-Jones' ticker. It didn't appear on our ticker here until 2:50. That is what got me started, because at 2:50, our time - but just taking his time table, 1:25, he gets it from the Bank of England; 1:30, he dictates the message to Loree; 2:00 o'clock, Loree acknowledges it; 2:30, Loree gives the message to Dow-Jones, which is an hour and five minutes from the time the message comes in until Loree gives this message, and during this thing - I haven't got the stages, but this thing had gone from 3.77 to....
- Cochran: 3.95.
- H.M.Jr:3.95, and if I was in the export business and wanted to cover, I wouldn't know about it until 2:40, but everybody in the foreign exchange would know about it.
- Ransom: Everyone whom Loree might have notified.
- Baile: Presumably this committee.
- Ransom: I was going to ask, I am informed Mr. Loree is the chairman of some committee on foreign exchange that has been set up.
- H.M.Jr: Which has been set up....
- (Unrecorded telephone conversation with
Mr. Greenbaum)
- H.M.Jr: It is some kind of an advisory committee which has been set up by the Federal Reserve in New York as a liaison between the Federal Reserve and banks in New York. Is that correct?
- Baile: I think I can add a word to that. It was to be the place where the regulations would be distributed. If a bank wanted to know what the regulations were,

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they would ask Mr. Loree and Mr. Loree would talk to the Federal and then they would get the answer. From our understanding that committee was not a committee of action; it was a committee of consultation and advice to Mr. Harrison.

E.M.Jr:

Well now, between you people, you will have to do the business piece by piece, but I want you to know what I did last night. Nobody knows why we are doing it this way. Last night after supper I got the following memorandum from Duffield, which I want to read, and this is the first time I ever got a memorandum like this, I mean in the sense that Duffield seemed excited.

"There are some aspects of the foreign exchange mix-up today which seem to me to come within the scope of my office.

"It has seemed to me that an indisputable and inflexible rule of the conduct of this office should be that no information which the Treasury has or which is secured on the Treasury's behalf should be given to interested parties who can benefit by that information before it is given to the general public. I do not believe that this rule should be relaxed merely because the persons who can profit by the information happen to be serving on some quasi-public committee.

"Therefore, I was considerably disturbed about the manner in which the New York Reserve Bank people handled the information on sterling. In effect, they gave the information to a 'preferred list' of bankers who did not release it to the public until most of the resultant increase in the market was over. At the same time that these privileged bankers were being given this information in New York, representatives of general news agencies who were inquiring at the Treasury about the dip in sterling were being denied all information. I know that you do not approve of this procedure any more than I do, but I hope you will not let the New York people put you in this position again. If this story happens to get out (persons who sold sterling under \$4.02 and who now find it was worth \$4.02

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may talk to reporters), the New York people will have put us in a most untenable spot."

I have had no communication with Duffield, so he arrived at this conclusion entirely independently.

After getting that, naturally I was disturbed and that was the first time Duffield has been disturbed since he has been with me. I called up the President and I told him the story. He was very much disturbed and very much shocked. He said, "Have you told Mr. Eccles?" I said, "No, Eccles is out of town." He said, "Who is acting?" I said, "Ransom," and he said, "I wish you would immediately get in touch with Ronald Ransom and tell him and ask him what his advice is," which I proceeded to do before 10:00 o'clock. That brings the thing up to date.

Ransom: May I add to that that after your call to me I called Dr. Goldenweiser, explained the situation to him, asked him to get from Mr. Knoke last evening such information as he could. And while he was talking to Mr. Knoke over one line, I called Mr. Harrison over the other. We got, at that time of the evening, only a piecemeal story, so this morning at 8:00 o'clock I asked Mr. Knoke and Mr. Harrison to give us in some detail the story as it developed from that end, and I would say that the time schedule appears to be as you have it on your memorandum.

H.N.Jr: We got that from Knoke; we are not arguing about that.

Ransom: Yes, there is no issue of that. A question I asked Mr. Harrison, and about which I am not certain as to the answer, was this committee set up with the knowledge, approval or authorization of the Treasury? As Mr. Duffield says, it is one of these quasi-civic bodies and I would just like to get its status clear in my own mind.

The other question which I would like to ask for my own information, suppose this committee had not been set up, of which Mr. Loree is chairman, what would have been the routine procedure in regard to this information? It would, of course, come, as I understand it did, from England to the Federal in New York to the Treasury here and the Treasury here would, if it was information which should go to the

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public, release it here. Is that the procedure?

H.M.Jr:

That is right. The point is this: The reason that this is important is that it mustn't happen again. The thing that I have prided myself on always is that if I have any information which the public wants to have, I use the public press as my informant and I think that that is one of the reasons we enjoy the confidence of the public. I mean any information is either secret or it is public, there is no in-between. I will have to be a little bit wordier than I am usually. I think that you know that Knoke's authorization roughly - I think we paid about 75 percent of the cost of that.

Lochhead:

I don't know the percent. We pay what they bill us for.

H.M.Jr:

It is a very substantial amount.

(Unrecorded telephone conversation with
Postmaster General)

You asked me a very pertinent question. If I had been Knoke or George Harrison, inasmuch as we were putting the pressure on them, I would call up, first, Archie or this fellow (Mr. Cochran). Now, we have got this. How do you want to handle it? Do you want us to give it out or do you want to give it out? Then we could have made a decision. I mean, "How do you want to do it," but as you will see by conversations with Butterworth, who represents us in London with the Chancellor of Exchequer, his answer. We have been trying to put up the best face we can that there still is a Tripartite Agreement. Of course, it is a joke. The only thing that is left in the Tripartite Agreement is that Treasury should exchange information. Now, if that breaks down, well then, I don't see how I can even keep a smiling face toward the world, and you read all my conversation in which I said to Butterworth that if - I am having difficulty enough convincing the President there is a Tripartite, but if Sir John Simon has some information on what he is going to do, for heaven's sake tell him to give it to me tonight so we can get it out and not let our people flounder all through the day thinking that a pound

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has no bottom. We don't know that the pound is worth more. The thing is down to 3.77, jumped up and down twenty points, and in the eyes of the world it just weakens the pound sterling, which is supposed to be a strong currency, and I said, "Please tell us."

I am not trying to give you all the things. Sir John Simon comes back and apologizes for the Bank of England having done it, but he says everybody in the Bank of England of any importance was over helping him prepare an answer for me. Is that about right?

Hochman: Yes, it was the important conversation to the Chancellor of the Exchequer when Knoke's call went into the Bank.

H.M.Jr: The point I am making is, I think it is terribly important in the eyes of the world that we can keep a direct communication between Treasuries, so that this thing... I think that the English handled themselves very stupidly. I told them so. Their comeback was, "You will remember, we are at war," which I do remember. The Federal Reserve of New York is not at war. I think the English were stupid, but they have some extenuating circumstances; after all, they are at war. I am quite sure that in the future when the English want an announcement it will come to me. I think that the lapse of time as between - I think that Bailie used the words that this was a committee on advice and not of action.

Bailie: That was my understanding.

H.M.Jr: That puts it much better. I can't improve on it and I think the thing is inexcusable the way they handled it, and they are not under such pressure there that they couldn't call up and say, "Look boys, we have got this thing that you have been pressing us for; how do you want to handle it?" They didn't do that and Mr. Loree is at lunch or something like that, and maybe in the meantime his trader - I don't know his trader - may have a look at this thing and I would like nothing better than about three seconds advantage over everybody else to know what the sterling pound is worth, 4.02.

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- Baillie: My suspicion is that you will find that Bob eats a very good lunch and usually he comes back at 2:00. The thing is probably unopened on his desk and he goes along and doesn't realize that he is a committee of action at all. He doesn't realize he is the person who is supposed to be doing all these things. There is where the delay comes.
- H.M.Jr: Here is what you asked me, and I will be glad to furnish you with a copy of this. Mrs. Klotz will read it to you.
- Klotz: "Mr. Harrison: Before the Munich crisis we made a complete survey in the New York banks of the 1914 versus the 1938 situation.
- "The one thing we felt we needed definitely in New York, in the light of past experience, was to have a bankers' committee to which I might go in any hurry upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do. The banking community...."
- H.M.Jr: That the Treasury might want us to do.
- Klotz: Yes.
- "....agreed definitely that I should have such a committee -- call it advisory committee...."
- Perhaps Mr. Hanes might read this better than I. I don't have my glasses with me.
- Hanes: "The banking community agreed definitely that I should have such a committee -- call it advisory committee or a market committee or a contact committee. There was some difference of opinion as to how it should be organized, but nevertheless the principle was agreed to. We dropped it merely because of the Munich appeasement, as it was called, I understand.
- "At that time I discussed with the principal banks in New York the whole question of the bond market for one thing, the foreign exchanges, and the question of foreign balances. I think there is no

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question that they would be all definitely willing and glad to do anything that they legally can within their rights. And if I set up such committees, as I had planned yesterday to do today if I had been in New York, all I would have to do would be to put up any question I want to to the committee and let them do the dirty work. That's the way I'd rather do than call them up, as you say, at 2:00 o'clock in the morning."

H.M. Jr: I will have a copy made.

WANSOM: There is one question that occurs to me, if I may ask it at this point. You said a few minutes ago, in answer to a question I asked, that the ordinary procedure would appear to have been for the New York Bank to have advised Mr. Lockheed and Mr. Cochran and to have ascertained from them what disposition the Treasury wanted made of this particular item. Do I understand that they did not advise anyone in the Treasury of the receipt of the information, or is the question that they did not ascertain from the Treasury what disposition the Treasury wanted made of the information? Is it both, or....

H.M. Jr: Archie, can you answer that?

Lockhead: Well, Knoke called me sometime. We are trying to check the time. It was about 12:35 or 12:50. He read to me a message which he said he had dictated and sent to Loree and I said to him, "Did you get this information from the Bank of England as we got it in response to the previous....", and he said, "Yes, we were given that as information." It had been sent over apparently before. He said, "I have dictated this and sent this over to Loree."

Wansom: So that apparently your information arrived after the memorandum was dictated and on its way to Mr. Loree?

Lockhead: That is right.

Wansom: So the decision on that part was to give Mr. Loree the job of releasing the information, rather than to have ascertained from you people just what you wanted done.

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- H.M.Jr: We think so.
- Baile: Mr. Cochran was on the telephone at that time.
- Cochran: I was on the line and that checks with their time table.
- H.M.Jr: I wouldn't want to sign my name to that statement, but that is the inference we draw.
- Cochran: Our operator's schedule shows that we talked at 12:50 with Knoke the second time. His statement is that he dictated this information for Loree at 1:30.
- H.M.Jr: 12:50 our time is 1:50 his time. What time did he send it off?
- Lochhead: About 1:30.
- H.M.Jr: Well then, that is - yes.
- Ransom: May I ask, Mr. Lochhead, what you did with the information after you got it?
- Lochhead: Well, I gave it to the Secretary. The Secretary told me in the meantime that he had spoken to Knoke. Evidently we came in at the same time.
- H.M.Jr: I got impatient, not having anything, and I did something I haven't done since I was back. I called up Knoke at 12:52 our time, our record shows. I said, "For God's sake, why can't you get this information," and he said, "Well, I have had it." I will show you all the conversation. It is terribly hard for me to remember it this morning. I think he said, "I have told it to Archie," but I can't remember. I asked, particularly, because George started to argue about the time. My record shows I was talking to him at 12:52, which is all of twenty minutes after this thing was on the way to Loree.
- Lochhead: Remember that we are looking back at it over a period of time. When this thing came in and was released, nobody thought at that time it was going to be an hour between the time the committee got

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it and it was released to the public. That is something that developed, an unfortunate chain of circumstances.

Now, it is difficult to say - if we had known this when the call first came in, naturally we would have handled it differently, but this is the way it did go through.

Ransom: Then I understand, Mr. Secretary, that your feeling is that we have a responsibility, this being a Federal Reserve Bank, to ascertain first of all all of the facts to the best of our ability and then reach some decision as to what we can suggest to be helpful, so that this could never occur again.

S.M.Jr: That, plus another one, and I want Gene to listen to this, and I want the advice of people concerned here. The other question is whether the Treasury or the Federal Reserve, individually or collectively, should make some kind of a public statement this morning. I mean the Federal Reserve Board. Should we make a statement saying that this thing occurred yesterday, a very unfortunate incident, and we have taken steps to see that it will never happen again? I mean, I think something has been going through my mind - we don't want to be, shall I say unfair, but my experience here - I would much rather make a statement like that even if somebody's feelings are hurt a little bit than to have this thing grow and then have somebody else have a story and then have them say, "Why didn't the Federal Reserve Board or Treasury do something like that"? Just a very short dignified statement that this thing has occurred, it is very unfortunate, and that we have taken steps to see that an incident like this cannot occur again.

Now, I would like advice on that. I mean that is my information and the reason I would like a joint statement, if possible, is that I don't want to be spanking a two-headed child where one head is yours and the other head is mine.

Ransom: Well, let me say that I appreciate the fact that you took this matter up with us, which seems to me to be a very orderly procedure. You will have our full cooperation to the best of our ability in trying to

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help you solve both of the questions which you have submitted. The relationship of the Treasury to the Board and the Federal Reserve Bank of New York is a triangular one in which we must work in the closest cooperation so that there can never be any misunderstanding of direction or misunderstanding about details of this kind, because it might be very disastrous at some time if it did occur. I, of course, have not had an opportunity to discuss this with the other members of the Board. We are a Board. No one of us has authority to express any view, and if I may have the documentary evidence which is important, then I would like to go back to the other members of the Board and discuss the matter with them and have an opportunity then to discuss it with you, if you like.

H.M.Jr: All of the conversations are being typed and it takes a little time. I didn't ask them to do it last night, but they are all in the process now. I have asked them to fix up a little book, give you everything that happened, and the minute it is ready I will send it over, but I wonder if - I mean my conversation with England on this thing - I mean we are trying to straighten that out, but we have got everything as to relationship between the Treasury and the other.

Now, would it be crowding you too much if we could have an answer, say by half past 11:00? It is half past 9:00 now.

Ransom: That is two hours. If we get this typed information, I would say it is not crowding us too much.

H.M.Jr: We will do the best we can and either Knoke or Cochran or Bailie will give it to you verbally. They know everything that happened.

Ransom: It might be helpful if I could take those two gentlemen back with me.

H.M.Jr: Take one of them.

Bailie: Don't take two.

Ransom: You choose. I have no choice between them.

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H.M.Jr: Cochran, do you want to go over?

Cochran: Archie is the one who had the telephone conversations both times. I listened in the second time. Whichever one you wish.

Lockhead: It doesn't make any difference. It might be better to have Cochran.

H.M.Jr: Do you know what happened?

Cochran: Yes.

H.M.Jr: Did you listen in?

Cochran: I was listening the second time, which was the important one of the two conversations.

H.M.Jr: Inasmuch as Archie - as everybody knows, he is leaving us, I think Cochran may go over with you if you want to take him. He has the documentary evidence there. I know the President is going to tackle me at 2:00 o'clock and I would like to have something done, either do something or decide not to do something before then.

Ransom: Your time limit doesn't seem unreasonable to me.

H.M.Jr: Gene, can you add something on this in addition to your memorandum? Do you want to say something?

Duffield: No. On the general grounds, I agree with you absolutely in the statement that what we have here seems to me ought to be either secret or public and nothing in between, and that is what I think didn't quite happen here. I was disturbed because I had newspaper inquiries yesterday afternoon, while all this was going on, from two or three sources and there wasn't anything I could give them. It hardly seems fair since it would have been on Dow-Jones Company that I would have given it to them an hour or so earlier and not to the other news services too, that they were not being told while other people in New York were being told.

H.M.Jr: Well, supposing we do this, if I don't hear from you again, when we get this thing in a nice package

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I will send it over. If we don't hear from you again, would it be asking too much if you came back at 11:30?

Ransom: I will come back at 11:30 unless there is something in the meantime which prevents it, in which event I will call you.

H.M.Jr: I think we had better make a public statement and do it this morning.

Ransom: I can be back at 11:30 so far as I know.

(Mr. Ransom, Dr. Goldenweiser, Mr. Morrill and Mr. Morse leave the conference)

H.M.Jr: I am trying to be as judicious as I know how. Does anybody think that isn't the way to handle it?

Smith: You are handling it all right. There are two things here. First, you want to clear this situation for the future.

H.M.Jr: Yes.

Smith: Then you probably want to see what happened in the meantime, but they are entirely different things.

Foley: See what transactions there were and in what amounts during that period.

Bailie: You also have to remember the continual relation with the Federal Reserve Bank in New York, which will be gravely harmed if a public statement is made, and also that all the leading bankers in New York who have been asked to cooperate on this exchange and who didn't ask to have anything sent to them. If they are publicly panned for receiving a message, that will also be bad.

Foley: It is not necessary to pan them.

Bailie: I think the fault really lies, as I have seen it, right in Knoke's judgment as to what he did when he got the information. I think we have to be awfully careful not to....

H.M.Jr: That is all right.

Sallie: They recognize the other risk and it is a question of the greater risk.

H.M.Jr: I have seen these stories grow and grow and grow and I wouldn't mention any names. I wouldn't - I mean I have got it in mind to say that Mr. Harrison or Mr. Knoke - but I will simply say the combination between the Federal Reserve and this committee was very unfortunate, the way the thing was handled, and we will take steps to see that it won't be handled that way again.

Sallie: I imagine that you will find that the committee was stunned by having the information sent to them. This is the first piece of action they have had anything to do with at all. They have been a perfectly innocuous committee receiving little slips saying, "If you want to know anything, ask us." That is all that has happened.

Yesterday Loree was suddenly put in the position of being the General in command of an army. I am sure he must have been intensely surprised. I understood you, when we talked about it, that that wasn't the plan at all.

H.M.Jr: No one was more stunned than I when I got this ticker marked 1:50 Eastern Standard Time with a statement of Mr. Loree announcing the apology of the British Government.

Sallie: He said, "We understand that."

H.M.Jr: I put it up to Ed, here. My own feeling is that there should be a very dignified statement.

Duffield: My opinion is that I could handle it a little bit better verbally talking to the newspapermen here.

Sallie: Than making a statement?

Duffield: Yes.

Henes: I may be wrong, but I felt from the very beginning that it was the most stupid thing I have ever

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heard of a man doing, not calling us back here and telling us that, "We have got the information, it is important information, and you fellows give it out down there, give it to the press," and it just strikes me as so utterly stupid. About all the public statement you can say is that we have got a dumb cluck who made a mistake. Beyond that I don't think you can say much. I think that is the answer.

H.M.Jr: I think you will see in the conversation some place that Harrison indicated that this was their responsibility and it was really none of the Treasury's business.

Banes: I don't think that is true.

H.M.Jr: I think you will see that in his conversation. Some place he said, "Well, after all, this is Federal Reserve of New York," and I think, gentlemen, that the thing might just as well be settled now, but I thought it was settled four or five years ago, but we might just as well settle it now once and for all time and this is my way, you people can tell me if I am wrong, that this is a Government organization and there might be some idea that the Federal, as our fiscal agent, would have authority to do that after consulting with us, but as for Mr. Loree, Acting Vice President of the foreign exchange, to be the mouthpiece, I don't think anybody would think that.

Beilie: It is so stupid it goes into the fourth dimension.

Smith: But the first man to agree with you would be Loree.

H.M.Jr: I wonder.

Smith: Yes, sir.

Beilie: I have known him for 25 years. He is an organization man, a man who always does the meticulous things from the point of view of what is right and wrong. He is that kind of fellow. Mr. Harrison mis-spoke himself, I think, don't you, Walter, when he said that it was that committee's responsibility? I think he was probably overwhelmed with surprise by what had

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happened, because I don't gather from any of this that George Harrison personally was at the Bank when this happened.

- Stewart: I gather that Knoke sent Lores not a statement to be issued - I doubt very much if he wrote it.
- Duffield: It said dictated and sent by him.
- H.M.Jr: It said dictated and sent.
- Stewart: I wonder if he dictated a statement to be issued or whether he dictated the technical facts.
- H.M.Jr: I gather that they (Board of Governors of the Federal Reserve System) will get a copy of the statement. I don't want to call them and cross examine them.
- Railie: George told me he was going to call me this morning. I don't think he will.
- H.M.Jr: I think it was the suggestion of the President to let the Federal of New York get into the Federal Board and it was a good one.
- Stewart: I think the procedure was good up to date. I think you take a risk in not making a statement and you take a risk of pretty definite loss if you do make one. The market given in the morning prices will do it faster than yesterday anyway. I have the feeling that yesterday was a sort of shell-shocked day, that we would be much wiser today looking back on what we ought to have done yesterday. The really important thing is to look forward and see what we are going to do next. You can prevent it happening again, but whether you can prevent the kind of mis-information or the lack of information we received from the British or whether we shall give any assurance that from time to time we can give them a bit of news as to what this market means, I don't know.
- Hanes: This is to be Treasury business and....
- H.M.Jr: Nobody has any doubts about that.
- Stewart: As far as issuing statement are concerned.

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Salie: In the course of your dealings before that was made perfectly clear. He was getting this information for you because you had asked him, not once but several times.

H.M.Jr: I can't get it out of my head and I wish you people would read it, but I have got the distinct feeling that at one stage George was telling me, "This is the Federal Reserve of New York's responsibility and it is not yours."

Salie: That, of course, will have to be disputed at once. May I make this suggestion: There is a half way place between making a public statement and doing nothing except getting our facts and that would be for the Federal Reserve Board and the Treasury to write a letter to the Federal Reserve Bank of New York City, not make it public, but which would show what we thought of the thing and what they suggested, which if publicity did come up, would be dated several days before and then the answer would be, "Why, this thing was handled by the Federal Reserve Board and the Treasury. This letter was sent on such-and-such a date," and the record would be clear and you would not have had the loss which Walter fears and I fear of making a statement which cannot cover all the ramifications, because the immediate question will be, "Well, did the Chase Bank make some money," and you will have a running sore of this, and I think the chances are there will be no publicity.

H.M.Jr: I am not going into it, but I hope the Federal does find out what happened during that hour. If I was George Harrison, I would want to know every transaction that happened in that hour.

Salie: I told that to George at 12:00 o'clock last night.

H.M.Jr: If I was George Harrison, I would want to know what happened during that hour and ten minutes.

Salie: That is what I said to George at 12:00 o'clock last night.

H.M.Jr: You are good at that time.

Salie: I was never better than I was then. I came out of

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a sound sleep so I was entirely refreshed and I lasted for 45 minutes. He was vastly disturbed because he had just gotten a message from Ronald Ransom and he was talking over the conversation we had had before and I said, "Well, I think, as I see it, there is only one thing here. We have, down in the Treasury, to determine what attitude we must have about what the British have done, but it seems to me that the whole situation that is of moment and has danger in it is this hour and ten minutes," which I said is just one of the most unfortunate things I can imagine having happened. George said, "I don't believe there was any hour and ten minutes."

H.M.Jr: He said that, and of course....

Baillie: On account of Eastern Standard Time and so forth.

H.M.Jr: I don't know where he was during that hour and ten minutes, but he doesn't know what happened in his own shop.

Baillie: He doesn't know nearly as much what happened as we do. I said to him, "Will you call me at 6:00?" I said, "I am looking at a clock here that is Daylight Saving Time."

Smith: Mr. Secretary, I want to say a word. I quite agree with what Walter Stewart said, that there is going to be a lot of "C'est la guerre" stuff as we go along and this should be handled so as to clear the future releases but dispose of this instance as lightly as possible. I think Gene can do it in a conversation.

H.M.Jr: What do you think?

Duffield: I agree with you.

Foley: You can write the letter in any event.

Duffield: I think it ought to be in the record.

Baillie: I think the letter is a good compromise.

Foley: You don't have to accept the compromise. You write the letter and then you either release it or you don't release it.

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- Baillie: Depending on what facts occur. I am thinking of protection to the Treasury and the Secretary, having a distinct statement in which the Federal Reserve, as a neutral, joins, having examined it.
- Stewart: Or would you simply have instructions as to the handling of relations?
- Baillie: In view of these circumstances which occurred yesterday, I think it is a rather short form thing, but which would show clearly that the Federal Reserve fellow - that this was the fault of the understanding of the Federal Reserve Bank of New York's desk as to what should be done with news. That is, I think, a piece of protection that we want at the Treasury, and then go on and say, "This is the way it is to be handled." I suppose it is the first money news that has come into the Federal Reserve for a long time. Isn't that true?
- H.M.Jr: No. These conversations have been going on all the time.
- Baillie: I mean money news, that anybody could have made money out of. In other words, there hasn't been this double market business that we are going to have to live with from now on.
- H.M.Jr: I can't answer, but I know I went all through this thing twice. I will tell you the story of it. It was the darndest thing, London was getting the announcement of our... When we changed the price of gold, they were getting Dow-Jones faster than we were, by how many minutes?
- Duffield: Nine minutes.
- H.M.Jr: And we couldn't figure that out.
- Baillie: We had people in our waste baskets. We had the Secret Service.
- H.M.Jr: We found out that Grayson M-P Murphy & Company would have an open telephone wire to London to their House and over the telephone they would beat the Dow-Jones - they would get it, tell it to their customers - they made no secret about it. They had a customers' room and they would tell them the price of gold. The

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press association would be in Grayson Murphy's office and they would pick up the news and would telegraph it back here and they would get it here faster than Dow-Jones would. Grayson Murphy, when we had them in and talked to them, said, "Sure, we are a little smarter than anybody else to do that."

Baillie: They said it cost them \$43.00 a day and they made thousands of dollars.

H.M.Jr: They just said, "We are a little smarter than anybody else. If you don't like us to do it, we will stop it."

Baillie: Of course, Dow-Jones was sore.

Smith: What did you tell them?

Baillie: You said it was quite all right. We stopped changing gold shortly afterward.

H.M.Jr: What we were going after was to see that Dow-Jones was on the job. There was nothing to say. Grayson Murphy were not breaking any rule.

Baillie: We just posted it on a little bulletin board and they had a man who ran from that place to the telephone. It was open to London. We got it nine minutes ahead.

H.M.Jr: They weren't doing anything. They were just being a little smarter.

Then some press association - United Press - had a man in Grayson Murphy's office in London. He would get that darn thing back here before Dow-Jones got it on the ticker.

Baillie: That was six minutes advantage in New York that the United Press had.

H.M.Jr: The point is that people got terribly upset, and you take our silver announcement and our prices, anything like that - I mean they are so meticulous here to see that everybody gets it at the same split second, that is why there is no criticism.

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I think that this charter under which the Loree committee is operating - Mr. Harrison can have all the advisers that he wants as long as he operates on this theory. I would first give it to the press and then confirm it to the banks, which wouldn't even be necessary.

Saillie: I don't think he would have to confirm it to the banks. I talked to someone who was at the meeting when it was organized. He said, Harrison said, "I don't know whether there will ever be any occasion for using this committee or not, but I want to have it organized so if the Treasury asks me to do something, I will be able to know how to do it." Then it turned suddenly into sort of an acting corporation.

H.W.Jr: There is one other thing. A separate chapter has to be handled separately and I would like to dump this in you peoples' laps so we can have something. I have got to get an answer from Sir John Simon and if you people could be back at 11:00 with an answer from Sir John Simon, we can go over it, because he doesn't know what is going on any more than George Harrison does.

Saillie: He pretends not.

Stewart: He probably doesn't.

Saillie: No, probably not.

Stewart: You are informed here, and the British Treasury is not. The Bank of England is informed, and over here the Federal Reserve is not.

H.W.Jr: I think we can do them a real service plus our own exporters and importers a service, if we get the thing out. And on that, here is another thing which I don't understand and this is some French-named banks here.

Saillie: They named those banks in Paris, according to our cable. Archie is not here now, but I am quite sure in the cable I read that those are branches of American banks in Paris. I think this is wrong.

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- H.M.Jr: Could you gentlemen be back at 11:00 with a draft of an answer, and Johnny and I will be here. Can you detail Bernatein on this?
- Foley: Yes.
- H.M.Jr: The rest of you be back at 11:00 with a draft. I think there is a real job to be done for Sir John Simon. Can you fellows get together?
- Baillie: We don't think that - Walter and I were talking about it last night - we don't think that we should be any less firm than we were yesterday about our own position.
- H.M.Jr: Did you read my conversation with Butterworth?
- Stewart: I heard it. I happened to be in the room. I followed that line.
- H.M.Jr: Was it all right?
- Stewart: Yes, I followed that line.
- H.M.Jr: I kept looking at you and you kept nodding all the time. I mean I wasn't too....
- Baillie: You see the Federal Reserve Bank of New York thinks that we were being too firm. Walter and I think we were not.
- H.M.Jr: Archie told me that before Knoke would call up a second time - he is so timid about calling - next time we want information we won't ask Knoke to do this, see?
- Baillie: What I am hoping is that by the end of the morning that we will know exactly the way we want this thing handled, and I am going to be in New York on Monday morning and I would like to go in and talk to Knoke myself like a Dutch uncle after we have got exactly what we want.
- H.M.Jr: You can't change Knoke.
- Baillie: Still, we will have done our best.

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H.M.Jr: Well, you can't change him. I mean....

Ballie: I have known him, of course, for many years.

H.M.Jr: Do you agree with me?

Stewart: You can't change him. On the other hand, there is a great risk of cutting off our source of information from the Bank. It will take Butterworth half a day to get from the Treasury what Treasury gets from the Bank. If you want to use your Butterworth man, he has to go to the Treasury. He has no real access to the Bank. The Treasury goes to the Bank of England and the Bank of England corresponds with Phillips and Phillips with Butterworth. If you want really prompt information you have to get some sort of clear relationship.

H.M.Jr: I agree with you. I think it would be a mistake to cut off conversations between Knoke and the Bank of England. That shouldn't be done. But again, I can't help but feel that there is a little feeling down there that with this Tripartite thrown out the window that the trend is back and it is really none of our business.

Stewart: You ought to be able to deal with that here.

H.M.Jr: I just feel without.... I would just like to remind them that possibly 75 percent of their people are on our payroll. I don't also have to remind the Federal Reserve System - I think their expenses are six million a year, of which we pay four. So, I mean I don't want to also remind - I don't have to use the Federal Reserve in this. I mean all of these things which I have - all of these are things I have never done. My relationship with Harrison went through very, very difficult times and I have always wondered after the thing was arranged - he had to do it as my fiscal agent. I am not suddenly going to throw over a very fine relationship with him. I never have gotten rough with him. All the cards are mine, but I don't want to play them. I have never had to get rough with him, and after just straightening out Jerome Frank, I don't want to out-Jerome-Frank Jerome Frank.

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Baillie: It happens that Walter knows the new financial Attache very well and we can develop that relationship as a help.

H.M.Jr: Before Pincent, they sent me a man with a cake of ice for four years with his neck out just about enough to take about three bottles of Scotch every day. Then they sent him back and they sent me Pincent, who comes out of Berlin.

Baillie: But Walter says he is an able man.

Stewart: He really was a power in both the Treasury and the Bank. He could be developed.

H.M.Jr: The normal thing would be to have him come in, give this to Butterworth and give it to him, and he gets the story, but in justice to my time table - I have to take my wife and family to the airport.

Incidentally, Johnny, I am taking the car you would use today. It will be back tomorrow.

September 15, 1939

11:10 am

Present:

Minister from Finland, Mr. Procope
Mr. Hanes

Mr. P: How are you after your trip to Finland? I don't come to bother you before, because I understand how busy you must have been. I hope you enjoyed your trip.

HM, Jr: People could not have been nicer.

Mr. P: I am still expecting the letter about -- all letters are coming very late. They were very charmed.

HM, Jr: Your people could not have been nicer and my oldest son got a great thrill out of it and so did I. Liked your Minister and everybody there. Your Minister of Finance gave me this lovely dinner at the ex-Governor General's house -- the ex-Governor General of Russia.

Mr. P: That's the house where I lived five years.

HM, Jr: Ex-Governor General?

Mr. P: Yes. In that house I have been Bolshevik prisoner and taken out to be shot. In that house I have been a guardsman to when he lived there and in that house I have lived five years as Foreign Minister.

HM, Jr: It's a very nice house.

Ambassador: You are very busy.

HM, Jr: A little.

Ambassador: May I come to my business. What

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about the prospects now for us to take up the loan?

HM, Jr.: I gather you saw Mr. Sumner Welles.

Mr. P.: No. I did not see him, but I phoned him and I saw the Secretary of State this morning.

HM, Jr.: Mr. Welles called me last night and I gathered that he had also talked to the President.

Mr. P.: I understand so.

HM, Jr.: So I don't know what Mr. Hull told you, but I will repeat what all Mr. Welles told me. I hope it is the same story.

Mr. P.: Mr. Hull told me, if you would like to hear that ...

HM, Jr.: It would be nice.

Mr. P.: First, Welles told me over the telephone that there was a general sympathy. Mr. Hull told me the same thing and asked me to see you and asked me to see Jesse Jones.

HM, Jr.: Well, this is the message which I have, which I take it, comes from the President and from the State Department. I would rather give it to you this way. This may be, as I see it, a jump ahead, but I am going to repeat it and save time for you. That if your Government should have in mind at this time the question of taking up the question of an inter-Governmental loan, much as we admire Finland and much as we feel Finland is one of our good friends, the President does not want to bring up anything of that nature when he's trying to get the neutrality thing through because it may be harmful in getting his legislation. The suggestion is that I offer you whatever assistance the office of the Secretary of the Treasury has to sound out the New York markets as to what they can do for you. If the New York people want to charge you too much, the suggestion is that you then wait until the first of January and he will be glad to take a look at the situation then and then consider

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whether we do want to ask Congress for the authority to negotiate a government--to--government loan.

Mr. P: May I repeat. An inter-government loan, for the time being

HM,Jr: From now until the first of January

Mr. P: is not possible

HM,Jr: Not possible on account of the

Mr. P: on account of the political situation ...

HM,Jr: on the neutrality legislation. It might be misunderstood.

Mr. P: But you are willing to assist us or sound out the New York market for a loan.

HM,Jr: For Finland.

Mr. P: For Finland. Well, that is in substance

HM,Jr: And if you find that you think the rates are exorbitant, then we suggest you wait until the first of January and then we will talk to you again.

Mr. P: In what way would you find out?

HM,Jr: I haven't thought it through, but we would ask some of our acquaintances there.

Mr. P: Do you think it would be possible to get a loan?

HM,Jr: I don't know. Mr. Welles called me late last night. I don't know. I haven't had time.

Mr. P: May I ask you, in what way does Mr. Jesse B. Jones come in?

HM,Jr: He doesn't. Not with this message from the President.

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Mr. P: Now I am in somewhat difficult situation. I will put it quite openly before you, because Mr. Hull asked me directly to see Mr. Jesse B. Jones.

HM, Jr: I can make it easy for you. I will have Mr. Hanes call him, Jones, tell him of this conversation and say in view of this conversation would he like to see you or if you want to go and see Mr. Jones and tell him of our conversation, either way that you want.

Mr. P: I am very, very glad if you, Mr. Hanes, would phone Mr. Jones and I could, one of these days, go to see him.

HM, Jr: Mr. Hanes will call up Jones, tell him of our conversations and then, so you will do what Mr. Hull wants, then you can go over, but Mr. Jones will know.

Mr. P: You may allow me to think this over?

HM, Jr: Of course!

Mr. P: And contact my Government? I expect still a letter from Tanner. Was there any conversation with you and Tanner about this?

HM, Jr: There were these conversations. They asked me about this thing and they said I was under a misunderstanding: that the money was to be used for fortification of the Aland (?) Islands. I told them that when we understood that that was what the money was to be used for that that left an unfavorable impression here, because we did not feel that we could advance money for fortification purposes, but if the money was to be used for the purchase of materials in the United States that it would be a different story. I said maybe I misunderstood, but that's what I had understood.

Mr. P: I don't think we have spoken of that.

HM, Jr: You told me that.

Mr. P: No, certainly not. But I told you it might be an emergency loan.

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HM, Jr.: For the use of fortification.

Mr. P.: In case of mobilization.

HM, Jr.: And the fortification of the Islands.

Do you mind if between this and the next time I look it up?

Mr. P.: Please do. There has been a misunderstanding. I never spoke about a direct loan. I spoke about it. Would it be possible, it would be easier for you now to take up with Congress the possibility of arranging authorization for your Government?

HM, Jr.: The President said nothing at this Congress. Those were the President's orders.

Mr. P.: Now?

HM, Jr.: Now.

Mr. P.: And if the loan is taken on the New York market, what participation on the side of the Government would that be?

HM, Jr.: None. It would be a loan from private banks to the Government of Finland with the United States Government taking no participation.

Mr. P.: And the transfer of the money could be done as we see fit.

HM, Jr.: Oh, surely!

Mr. P.: It could be left here also?

HM, Jr.: Yes.

Supposing you think it over. I don't want to seem -- but I am, I have been at this since early hours and with Sterling bouncing around 20% up and 20% down, it's a little bit difficult.

Mr. P.: Thank you.

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Mr. Hanes: Do you want me to phone Mr. Jones.

Mr. P: I will get in touch with you in a few days.

oOo-oOo

RE PUBLICITY RELEASE ON
VALUE OF POUND STERLING

September 15, 1939.
11:30 a.m.

Present: Mr. Hanes
Mr. Stewart
Mr. Viner
Mr. Riefler
Mr. Bailie
Mr. Burgess
Mr. Cochran
Mr. Bernstein
Mr. Foley
Mr. White
Mr. Harris
Mr. Ransom
Dr. Goldenweiser
Mr. Morse
Mr. Morrill

Ransom:

I will try to as briefly as possible tell you the conclusion reached by the Board. I am asking these staff men I brought with me to correct any statement I may make that they don't think is right to the point.

It is the feeling of the Board, in the first place, that it would not be advisable to make a formal statement regarding this occurrence. They feel that if, for reasons best known to you, you think that a statement must be made or should be made, they would be very glad indeed to cooperate with you in trying to frame the sort of statement that you would think and we would think would be most helpful, leaving the decision to you and to us as to whether it should be joint or a singular statement, depending on what it is found necessary to say.

The feeling is that any such statement should be a rather technical explanation of the situation, that the public is less interested in that and that would probably simmer down more than anything else, that if the pressure on you is such that you feel something should be said to the press, it might, in the opinion of the Board, be handled by letting Mr. Duffield treat it somewhat off the record with them. We have great confidence in his ability to decide what is the minimum possible

- 2 -

under such circumstances and perhaps the interest in it would be dissipated by a statement from him. That should be your conclusion.

On the very much broader aspects of the problem, first the Board is on its own asking the New York Bank for a full and complete report indicating what was happening at the time, what did happen in connection with the transactions in the particular banks at which the gentlemen involved were members, so that we can ascertain and then confer with you on what did occur.

It seems to the Board quite self-evident that such a thing should not occur again. We feel that that could be prevented by an understanding between the Treasury and the Federal Reserve Bank of New York that any inclination of this kind which may reach the Federal Reserve Bank of New York first or the Treasury first, that the decision as to when and how that was to be released must be a Treasury decision in order to avoid any possible misunderstanding in the future. The Board also would like to say that it would back up my statement this morning that we like to cooperate fully with you and will in the future in any matters which may come up in your operations with our New York Bank as your fiscal agent, and that we will be very glad at any time when you want to call us in to try to be helpful, to try to find out what is going on and to see that the mechanism works as it should work.

H.N.Jr:

May I say in behalf of the Treasury that I couldn't ask for a more cooperative statement than you have just given me. It is most helpful. Before I get down to the question of publicity, I don't know whether when you were here or not, but some of the people in the Treasury expressed the feeling that we ought to put ourselves on record in a letter to the Federal Reserve of New York. Now, it is a matter of what we did - we ought to do that, expressing our displeasure at the way the thing was handled. I don't know whether we should - I would think that we ought to hold that in suspense until you have completed your investigation.

Ransom:

I would think so, Mr. Secretary. Let's see what we find. Then the degree of discipline that might

- 3 -

be in order would depend on that.

H.M.Jr: It might be agreed that we wait pending getting all the facts. A letter can always be written, can't it?

Foley: Yes.

White: Just for the record.

Billie: Mr. Secretary, I was the one who made that suggestion originally this morning as a compromise and it seems to me that the important thing is not the speaking in terms of discipline but rather that the future handling of this type of situation should be succinctly stated in the form of a letter from the Treasury to the Federal Reserve Bank of New York. And then if we must go further after hearing your facts, we can cross that bridge when we come to it.

Ransom: Well, it is past experience with the Treasury that its letter would be most diplomatic in any event.

H.M.Jr: Does anybody disagree with that, that we should wait until the Federal of Washington has made their investigation.

(No response)

Then let me ask Gene Duffield, in view of developments, what is your advice?

Duffield: I think it ought to be handled only by some verbal explanation to those people who were unable to get information here yesterday, while they could in New York, and also a statement that we are seeing that it doesn't happen again.

White: You couldn't be sure of the latter. I think some more general statement, because if you referred to a low rate you can't anticipate what may happen.

Duffield: Oh no, the release of the news.

H.M.Jr: We are speaking of the news by the Loree Committee.

Duffield: That is what I meant.

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- H.M.Jr: Well now, do you feel that that would be wise, Gene?
- Duffield: I think that is the best thing to do, better than to put out a statement.
- H.M.Jr: Is your man in here?
- Ransom: I can send him over here. He has been sitting in with us this morning and he agrees with that conclusion, that in handling it the thing could be played down and minimized by an explanation of the technical difficulties that exist in a period such as this when all mechanisms do not function perfectly. Everybody is working under more or less strain.
- Duffield: Then if those people are asked by the New York office as a result of any rumors up there, they will know the situation and they will be able to talk it down to their office.
- H.M.Jr: And you think it should be done?
- Duffield: Yes.
- H.M.Jr: While it was suggested, I think it would be necessary if your man could come over and be here when Gene sees them, because first, I would like it, and in the second place, when they go over to Elliott....
- Ransom: I see no objection to that.
- H.M.Jr: Don't you think he might come over, Gene, and be with you? And then another thing, it shows that the Federal and the Treasury are together.
- Ransom: I want to say, Mr. Secretary, in talking to the people of the New York Bank, it is perfectly evident to me that they are just as anxious as we are that this never occur again, and I think you will get complete cooperation on that, and I think that the suggestion that the Treasury have the last word always on the question of a release will meet with their entire approval.
- Gold'r: May I say one word, Mr. Secretary? The question

- 5 -

of Mr. Thurston coming over here was mentioned and his own feeling was that it would magnify the incident and he wanted that considered, whether it - I mean, whether you wished to have it or not.

H.H.Jr: Let's have an understanding that if he doesn't come over and they do run over to see him, will he refer them back to Gene or will he do his own talking?

Hanson: Yes. The doctor stated it almost correct but not entirely. The suggestion was made that perhaps if you wanted us to, we could get Mr. Morse with some of your technicians, and Mr. Duffield, and Mr. Thurston said if you have a lot of people along with Gene Duffield on an occasion like that you will probably cause more confusion than if he handles it alone. The suggestion of Elliott himself being present, I don't think came up. And I think in line with that that if we have the understanding that any inquiry referred to Mr. Thurston would be referred back to Mr. Duffield, I think that would be all right.

H.H.Jr: How about that, Gene?

Duffield: I am inclined to agree that it would magnify it if we had the unusual thing of both of us talking together, and if he will refer it back to me I will tell him what I said.

Deckhead: May I make a suggestion? You know we had a precedent before that in the question of where the silver price started to change and the newspapermen all came to you and said, "If the Treasury is making a change in the silver price, why should we have to find out in New York?" So we said we could understand that and the Treasury prices would be released in Washington, they could have it every day if they wanted it, and I think that would be carried the same way. In other words, if there is any question when a thing like this comes up, we can say, "This news will be released so the Treasury men will have that covered the same as they had on the silver."

Hanson: There is just this one other thing. I think Mr. Harrison is a gentleman working under three bosses and occupies a rather difficult position, and he asked this morning whether this report was to be made, that he is preparing, a full report to the Treasury or

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to us, or the both of us. It would be my suggestion that it be made to both of us simultaneously.

H.M.Jr: Entirely.

Now, would you just tell Mr. Harrison the result of this meeting and that Duffield is going to tell the press informally, and then when Duffield is through he will call up Elliott Thurston and tell him what he said, and - is there somebody in New York?

Ransom: I think I would let Elliott advise whoever in New York Mr. Harrison wants.

H.M.Jr: Right. And Gene isn't going to be surrounded by any people. All he wants to do is just let the press in Washington know why there was a scoop. Is that right?

Duffield: That is right.

Ransom: He is able to explain that.

H.M.Jr: And they are not going to be scooped again.

Duffield: That is right.

H.M.Jr: And we are not going to name any names.

Duffield: Not a one.

H.M.Jr: And that this is something that happened in which the machinery didn't click.

Ransom: After all, the world is pretty large.

H.M.Jr: I would like to say we have been in consultation with you people twice today on this thing.

Ransom: There is no objection to that.

H.M.Jr: I would like to say that we have been in consultation twice with you people.

Ransom: Let me ask these three staff members if they have anything to add to what I have said.

- 7 -

(No response)

H.M.Jr: How about these mourners back here? (Cochran, Stewart and Bailie).

Stewart: That last step I am not quite clear about, Mr. Secretary, as to whether it is wise to refer to consultations and what is supposed by the outside group to be largely in the family anyway.

Duffield: If they ask me - it is very probable they may have seen some of you people in here.

Ranson: Perhaps the plan to handle that, Mr. Stewart, would be to say that the Treasury and the Federal Reserve are in constant consultation on all these questions.

Bailie: That is a perfect answer.

H.M.Jr: Any doubt from over here? (White, Lochhead, Bernstein, Foley).

Lochhead: As long as it is going to be handled by Gene Duffield, the question of how the information is given out....

Duffield: I am not making a news announcement.

Lochhead: No discussion of the way this thing is handled, just that in the future you are going to give out information in Washington.

Duffield: This is just an explanation to them; this isn't a news story.

H.M.Jr: Last call; is everybody happy?

(No response).

No. 122²/2482Thai

September 15, 1939.

My dear Mr. Secretary,

With reference to the Acting Secretary of the Treasury's letter of the 1st instant authorizing the Federal Reserve Bank of New York to sell to the Royal Thai Treasury approximately \$9,000,000 gold bullion on or before September 6, 1939, I beg to inform you that the transaction has now been completed and the gold is placed in the custody of the Federal Reserve Bank of New York under earmark for the Royal Thai Treasury.

On behalf of my Government I therefore beg to express to the United States Treasury my deep appreciation for the kind cooperation extended to me. I beg you also to be good enough to convey the expression of my grateful thanks to Mr. Archie Lochhead who was very courteous and helpful to me in this connection.

Yours sincerely,

(Signed) Phya Abhibal Rajamaitri.

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

C
O
P
Y

Sept. 1, 1939

My dear Mr. Minister:

With reference to your letter of August 30th, I wish to inform you that the Treasury today authorized the Federal Reserve Bank of New York, as fiscal agent of the United States, to sell to the Royal Thai Treasury approximately \$9,000,000 gold bullion at \$35 per fine ounce plus 1/4 of 1% handling charge, on or before September 6, 1939.

The details of this transaction should be arranged through the Federal Reserve Bank of New York.

Very sincerely yours,

(Signed) Herbert E. Gaston

Acting Secretary of the Treasury

The Honorable Abhibal Rajasmaitri,
Minister of Thailand,
The Thai Legation,
Washington, D. C.

FD:emk
9.1.39

Initialed: FD:AL:

AIR MAIL

No. 1336/2482

The THAI Legation

Washington, D. C.
30th August 1939.Attention of Mr. Archie Lochhead.

My dear Mr. Secretary,

Regarding the desire of my Government to purchase gold bullion, you were kind enough to designate Mr. Archie Lochhead to discuss the matter with me.

I now have the honor to inform you that I have received a telegraphic instruction from my Government to request the authorization of the United States Treasury for purchasing approximately \$9,000,000 of gold bullion, which is to be held at the Federal Reserve Bank in New York and to be earmarked for the Royal Thai Treasury with option to sell same to the United States Treasury or to export.

If authorization is given, I shall make arrangements with the Federal Reserve Bank in New York for safe keeping.

I shall be very grateful if you will be kind enough to inform me the price per fine Troy ounce and the usual charge for safe keeping per annum.

Yours sincerely,

(Signed) Abhibal Rajamaitri.

The Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

C O P Y

C O P Y

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No. 1222/2482

THE THAI LEGATION,
Washington, D.C.

September 15, 1939.

My dear Mr. Secretary,

With reference to the Acting Secretary of the Treasury's letter of the 1st instant authorizing the Federal Reserve Bank of New York to sell to the Royal Thai Treasury approximately \$9,000,000 gold bullion on or before September 6, 1939, I beg to inform you that the transaction has now been completed and the gold is placed in the custody of the Federal Reserve Bank of New York under earmark for the Royal Thai Treasury.

On behalf of my Government I therefore beg to express to the United States Treasury my deep appreciation for the kind cooperation extended to me. I beg you also to be good enough to convey the expression of my grateful thanks to Mr. Archie Lochhead who was very courteous and helpful to me in this connection.

Yours sincerely,

Phya
(Signed)/ Abhibal Rajamatri

(Signed) Phya Abhibal Rajamatri.

The Honorable Henry Morgenthau, Jr.

Secretary of the Treasury,
Washington, D. C.

Prepared by: Mr. Tickton
Mr. Murphy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 15, 1939.

TO Secretary Mergenthau
FROM Mr. Haas *BA*
Subject: Effect of Declines in the Market Value of Government Securities Upon Bank Capital

The market value of the aggregate holdings of United States securities of all insured commercial banks has declined by about \$500 millions since the end of June. This loss will be reflected in the reported capital accounts of the banks only to the extent that it is realized by actual sales, and is not offset by previously unrealized appreciation in the particular securities sold.* This decline is equal to approximately 8 percent of the aggregate reported capital funds of the banks as of June 30.

Losses have been suffered in all classes of Government securities, except Treasury bills and United States Savings bonds. The greatest losses, both in terms of points and in the dollar amount involved, have been suffered, however, in medium-term and long-term obligations, as shown in the accompanying table.

The figures in the table are based upon the assumptions: (1) that the portfolios of insured commercial banks in the aggregate as of June 30, 1939, were distributed among the various issues of securities within each class reported in the same proportion as the total amounts outstanding; and (2) that the portfolios have remained unchanged since that date. Neither of these assumptions is strictly true, but it is improbable that such variations as may exist would result in a substantial error in the final results. A small portion of the declines shown in the table may be offset by amortization of premiums. This would be important over a period of years, but is of limited significance over a short period.

* Banks carry their Government securities (as well as all other Group I securities) at book values, which do not vary with fluctuations in market prices. "Paper losses" would become "real losses", however, if banks found it necessary or desirable to dispose of, replace or exchange the particular securities in which "paper losses" had been accumulated.

Secretary Morgenthau - 2

It would be useful to have a rough measure of the probable effect of any future changes in the price of United States securities upon the aggregate market value of the holdings of all insured commercial banks. It is difficult to state such a measure in a single figure, because price changes in the different maturity classes do not always follow the same pattern. Sometimes the shorts are strong relative to the longs, and sometimes vice versa. It is interesting to note, however, that a change of one point in the price of the longest-term Treasury bond, if accompanied by the same relative changes in the prices of securities of other maturities as was the case during the period from June 30 to September 14, would mean a gain or loss of about \$85 millions in the market value of the United States security portfolio of all insured commercial banks. This is equivalent to about 1.3 percent of the aggregate reported capital funds of the banks on June 30.

Attachment

Estimated Decline in Value of Government Security Portfolio of All Insured Commercial Banks, June 30 to September 14, 1939

(Dollar figures in millions; decimals are thirty-seconds)

	Government securities held, June 30, 1939	Average price decline, 1/2 June 30-Sept. 14, 1939	Estimated decline in value of June 30 portfolio
<u>Direct obligations</u>			
Treasury bills	\$ 446	2/	0
Treasury notes	2,925	1.05	\$ 33
Bonds:			
Maturing in 5 years or less	836	1.03	9
Maturing in 5 to 10 years:			
U. S. Savings bonds	167	0	0
Other	2,952	4.14	119
Maturing in 10 to 20 years	3,150	5.21	161
Maturing after 20 years	1,468	6.01	82
Total direct obligations	\$11,944		\$404
<u>Guaranteed obligations</u>			
RFC	\$ 659	.30	\$ 6
HOLC	1,615	3.09	51
FFMC	551	4.07	22
Other corporations	264	1.06	3
Total guaranteed obligations ...	\$ 3,089		\$ 82
Total direct and guaranteed obligations	\$15,033		\$486

Division of Research and Statistics, Treasury Department.

1/ Each issue weighted in accordance with its total outstanding amount.

2/ Price change computations excluded because all bills outstanding on June 30 will have matured by September 27.

September 15, 1939

I let the Presidenr read this at Cabinet.

BRITISH EMBASSY,
WASHINGTON, D.C.

September 14th, 1939.

My dear Mr. Secretary,

I have now received from London a reply to my enquiry, following our conversation on the 7th instant, about the mobilization of our American securities. The position is that while owners of American securities must make a return of their holdings under the regulations dated August 26th, no further step has yet been begun by the British Treasury to take over or sell these securities. We will not fail to keep you informed when any further step in this direction is contemplated.

Believe me, My dear Mr. Secretary,

Yours very sincerely,

L. Sturges

The Honourable

Henry Morgenthau, Jr.,

Secretary of the United States Treasury,

Washington, D. C.

BRITISH EMBASSY

The Honourable

Henry Morgenthau, Jr.,

Secretary of the United States Treasury,
Washington, D. C.

9-15-39

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I have discussed this item with Mr. Lochhead and he tells me that the phraseology of the story is wrong and all that has happened is that the French National Exchange office has added the four American banks named in the story to the French banks already designated as agents to conduct foreign exchange operations in France.

E. B.

France Names Banks Here To Run Foreign Exchange

Wireless to THE NEW YORK TIMES.
PARIS, Sept. 14—An official decree, published today, designates the following banks in the United States as qualified to conduct foreign exchange operations under the supervision of the French National Exchange Office: The National City Bank, the Chase National Bank, the Guaranty Trust Company and J. P. Morgan & Co. of New York City.

Another decree announced the appointment of a committee to act in an advisory capacity and to rule on exchange and gold transactions. Members of the commission are Louis Martin, director of the Credit National; Charles Rist, honorary governor of the Bank of France, and Henri Ardant, director of the Societe Generale.

September 15, 1939

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MEMORANDUM

Following the meeting in the Secretary's office at 11:30 this forenoon, which was attended by Governor Ransom and other members of the Federal Reserve System, as well as Treasury officials, I put in a call for Butterworth in the American Embassy at London. Upon being informed that Butterworth was outside of London, I asked for the First Secretary and got connection with Schoenfeld at 12:30 noon.

I read to Mr. Schoenfeld the text of the reply which the Secretary of the Treasury desired to be made to the Chancellor of the Exchequer. I explained to Mr. Schoenfeld that I was phoning him in Butterworth's absence. Schoenfeld asked how the message should be communicated to the Chancellor of the Exchequer. I suggested that he talk with Butterworth if possible before communicating the message; but if this was impossible I left it to the Embassy to use its best judgment, provided the message got to the Chancellor today. I told Mr. Schoenfeld that a cablegram would confirm this conversation by telephone. At 10 until 1 a cablegram was initialed and sent to Mr. Livesey at the State Department for transmission to London.

After lunch I went to the State Department where I talked with Mr. Renchard, in the absence of Mr. Gray, in the office of Secretary Hull. I explained that Secretary Morgenthau desired that I make available to the Department of State information with

- 2 -

respect to an exchange of conversations which our Treasury was having with the British Exchequer. Mr. Renchard stated that Mr. Livesey was the proper person for me to give this information to. I told Mr. Renchard that if Secretary Hull did interest himself in this matter he could call on me for anything to supplement the information which he would be able to obtain from Mr. Livesey.

Mr. Livesey received me at 3:30 and I summarized the developments of the past two days. He was already familiar with the exchange of telegrams.

I telephoned the British Embassy and found that Mr. Pinsent, the Financial Counselor, was absent in New York until some time next week, but that Mr. Opie, First Secretary, was substituting for him. At my suggestion Mr. Opie came to the Treasury at 4:30 p.m. I gave him a copy of the statement which the Chancellor of the Exchequer had communicated to Secretary Morgenthau, and a copy of the latter's reply of September 15, and explained the background of these two messages without divulging details of our domestic problems. I let him know, however, that we were anxious to have all of the information the British could give us that would be useful in the present situation of uncertain exchanges, and that the Treasury would hereafter assume the responsibility for giving such publicity thereto as may be appropriate. Mr. Opie volunteered the information that his Ambassador had been quite upset because of the lack of information on his part and that of his Financial Counselor with respect to sterling policy of the

- 3 -

past few days. Consequently he had drafted a cablegram to the British Government requesting that the Embassy in Washington be kept currently informed. This message also revealed the problems of New York financial interests arising from the sterling situation. Mr. Opie is an academic economist who was drafted into Government service only a few days ago and assumed his duties in the British Embassy today. It is not certain whether he will be here permanently. He hopes he can help the liaison between the British monetary authorities and ourselves and that he may continue on duty here, since Mr. Pinsent is likely to be in New York a considerable part of the time in the near future. I told Mr. Opie that Messrs. Stewart and Bailie hoped to have the pleasure of seeing Mr. Pinsent next week and that I would try to get the four of them together.



HMC

September 15, 1939

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MEMORANDUM

Governor Harrison of the Federal Reserve Bank at New York telephoned me at 5 p.m. He stated that he had tried to get the Secretary and still had a call in for him at Beacon. Since he had not yet effected communication with the Secretary, he had tried Undersecretary Hanes but found he was out. Consequently he asked for me.

Governor Harrison stated that he had just received a message from Governor Towers of the Central Bank of Canada to the effect that Canada is instituting exchange control tomorrow morning. The Central Bank of Canada and licensed banks will be the only ones to deal in foreign exchange. Likewise, commercial exports and imports will be licensed. The Central Bank of Canada did not want to take this step, but felt that it was inevitable, and finally decided to do it now.

There will be a Foreign Exchange Control Board, with Mr. Towers as Chairman. The other two members will be Mr. Clark of the Treasury Department and a Customs man. The rate tomorrow will open at the rate which obtained today, namely, with the Canadian dollar at a discount of 10 to 11 percent below the American dollar.

Governor Harrison understood that Mr. Loring Christie would see the Secretary at Beacon at 8 o'clock tonight to inform him of the foregoing.

Governor Harrison told me that he would leave in his call for the Secretary. I told him that I would also endeavor to communicate with the Secretary, and I put in a call for him at Beacon, New York,

at 5:15 p.m.

I reached the Secretary at Beacon at 6:20 p.m. and gave him the foregoing information. In response to his inquiry I also provided him with data on sterling, including the closing rate and the day's turnover.

When I told the Secretary that Governor Harrison planned also to speak with him and had left a call, the Secretary asked me to tell Governor Harrison that I had already conveyed the information to him and that unless the Governor had something to add, it would be better to postpone any telephone conversations until Saturday morning. I promptly communicated this message to Governor Harrison as soon as the conversation with the Secretary was terminated.

Dr. White called me at my Hotel at 8:45 p.m. to give me a message from the Secretary with respect to the explanation he had received from Mr. Loring Christie concerning the imposition of Canadian exchange control. In accordance with the request of the Secretary, conveyed through Mr. White, I relayed this information to Messrs. Hanes, Ransom and Hickerson by 9 p.m.



ENC/ka

Mr. Bailie -

11⁴⁰ am

Govts are firm

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Prices in bonds over 10 years
are up $\frac{1}{32}$ to $\frac{4}{32}$, and
under 10 years $\frac{7}{32}$ to $\frac{6}{32}$ up.

No change in Federal prices.
They have bought only \$14,000.

DCWB

9-15



TREASURY DEPARTMENT
WASHINGTON

September 15, 1939.

MEMORANDUM FOR THE SECRETARY:

Yesterday the British Government seized the American Steamer WARRIOR out of Mobile, on which was a quantity of 5900 tons of phosphate, presumably destined for Germany.

I thought you would be interested in knowing this is the same company that operated the S.S. WACOSTA that was recently stopped by a German submarine off the Northern Coast of Ireland, and, after a thorough examination of the ship's papers, was allowed to proceed.

Basil Harris.

FEDERAL RESERVE BANK
OF NEW YORK

Mc

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OFFICE CORRESPONDENCE

DATE September 15, 1939

TO Mr. Knoke (Mr. Lochhead's Copy) SUBJECT Telephone Conversation with
FROM J. W. McKeon Bank of Canada

Mr. Cameron of the Bank of Canada informed me this morning that today he is prepared to pay, in Canada only, Canadian \$4.40 for cable transfers on London. This buying rate applies strictly to Canadian exports to any part of the British Empire. He would not venture an opinion as to just what they might do tomorrow. However, he did say that yesterday he had paid \$4.38.

JWMCK:BOC

RECEIVED
SEP 18 1939
TREASURY DEPARTMENT
Office of the Secretary

TELEGRAM SENT

PLAIN

September 15, 1939

AMERICAN EMBASSY

LONDON (ENGLAND)

969, fifteenth.

FROM THE SECRETARY OF THE TREASURY.

Reference Butterworth's cablegram 1653, September 14, 11 p.m. Confirming conversation of this noon by telephone the following is the text of my reply to the Chancellor of the Exchequer:

QUOTE. I appreciate your message of September 14 promptly answering my inquiry. I recognize the difficulty under existing circumstances of exchanging information promptly, although earlier advice to us yesterday would have prevented considerable confusion in the New York market for Sterling. We are studying the situation and I agree with your suggestion that it would be desirable to exchange further advices as the situation develops. We are attempting to obtain the information you ask as to amounts of Sterling on offer. END QUOTE.

HULL

PL

EA:PL:LWW

September 15, 1939

To: The Secretary

From: Mr. Hanes

Mr. Adolph Berle's office notified me at 9:45 A.M. today that there would be a meeting of the Interdepartmental Committee on neutrality in Secretary Hull's office at 11:30 A.M. tomorrow morning, September 16th. I was requested to pass this information on to you.

To refresh your memory. During your absence the President instructed Sumner Welles to form an Interdepartmental Committee, composed of representatives of State, Treasury, War, Navy and Justice Departments, for the purpose of placing in the hands of State Department all the proclamations and documents necessary, together with recommendations from all departments, as to procedure in the event that war should be declared in Europe. I assume that this meeting at 11:30 tomorrow morning is being called in connection with some matter that has arisen concerning the earlier work of this committee. Do you wish me to attend?

— — — — —
 J W H ←

HMH said to JWH that the answer is "yes"

September 15, 1939

10:45 am

Present:

Mr. Hanes
Mr. Harris
Mr. Foley
Dr. White

(Mr. Harris gave the Secretary the attached document, marked Exhibit I, which the Secretary read before any of the corrections indicated had been made.)

HM, Jr: Who wrote this, please?

Mr. Foley: Huntington Cairns.

HM, Jr: Why doesn't he say, "I therefore recommend that the Normandie proceed," instead of "It may also be observed that we will not be involved if the NORMANDIE should proceed to a Canadian port under foreign convoy and arm itself there." This is not a recommendation; it is only comment. It seems to me that the thing to do is say, "Therefore I recommend that the Normandie proceed to a Canadian port under foreign conoy, etc." Why not simply come out and make a clean out recommendation.

Mr. Harris: Good!

HM, Jr: Do you check?

Mr. Harris: Yes. I think that's much stronger.

HM, Jr: If you don't mind, it's a lot of weasel words -- as long as you (Harris) did not write it.

Mr. Foley: We say "It is my view that he should be advised," etc.

HM, Jr: You be back at 11 o'clock and get Mr.

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Harris to sign it.

But I just think, we are asking all these people, on thinking this thing over, I think that I will just say "approved" and I will bring it up at Cabinet and not go through the motions of asking the President and Hull to approve something which is purely ours. I think it is making it too important.

Mr. Foley: It's purely ours and the legal advisor of the State Department concurs one hundred per cent in what we are recommending on the question of international law.

HM, Jr: I will tell you what we will do, so he (Hull) will be prepared.

(At this point Secretary put in a call for Mr. Hull but was unable to reach him.)

But why should the President and Mr. Hull O. K. a purely administrative matter of the Treasury? They will think I am getting a little weak-kneed. What do you think, John?

Mr. Hanes: There seems to be a little bit of a ticklish situation. I don't know. I think it might be well to advise them.

Mr. Harris: I think you will meet the same question on the Queen Mary. I had a look at the Queen Mary and it looks as though she is going to be ready to go out.

HM, Jr: Maybe the President doesn't want to do it. I got whip-sawed on the Normandie and Queen Mary on the buying end. We'll do it.

Mr. Foley: I think it might be a good idea.

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HM, Jr.: O. K. All you fellows have to do is get it in to me. Then I will ask Mr. Hull whether he will see you with his advisor.

Mr. Foley: Hackworth.

HM, Jr.: That you would like three minutes to explain it and you get it back so I can take it to Cabinet.

(At this point Secretary spoke to Gray in Mr. Hull's office. The following is the Secretary's side of the conversation:)

How are you?

You can take care of me and I won't bother Mr. Hull. I would like him, between now and one o'clock, to see the Commissioner of Customs, Mr. Basil Harris, and have your legal advisor, Mr. Hackworth, present. It's in regard to a ship wanting to arm in New York port and we don't want them to do it.

Give Mr. Harris and Mr. Hackworth five minutes to see Mr. Hull before Cabinet. I want him to know about it because I am going to bring it up at Cabinet. What time? Call Mr. Basil Harris direct and let him know if you have doubts.

Mr. Hanes: I think we ought to get the administration policy.

HM, Jr.: This way Harris walks it over; explains it. Harris, any time in the next half hour get it to me and I will sign the damn thing. I think it is good for Hull to know you are here.

Mr. Harris: That would be very nice.



TREASURY DEPARTMENT

WASHINGTON

Ephraim I

-77

TO: Secretary Morgenthau

FROM: Mr. Harris

Mr. Frank J. Foley, attorney for the French Line, has requested advice with respect to the position of the Treasury and other interested Departments on equipping the SS NORMANDIE with defensive armament to afford protection against submarine and airplane attack. It is proposed to obtain the armament in Canada or in the United States, and in either case to install it on the vessel in the port of New York.

After lengthy discussion
~~It is proposed~~ that Mr. Foley ~~should~~ be advised that the United States will not permit the NORMANDIE to be equipped with any armament in any port of the United States or in American territorial waters. If the NORMANDIE were armed within our jurisdiction, even though not for offensive purposes, and without altering its chief purpose as a vehicle of commerce, it would thereby give us notice that it will engage at sight any enemy submarine or airplane which it may encounter. For that reason we would appear to be burdened with a duty to endeavor to prevent departure from our waters of the NORMANDIE if it acquires its armament here. (2 Hyde, International Law (1922) p. 716.) It may also be observed that we will not be involved if the NORMANDIE should proceed to a Canadian port under foreign convoy and arm itself there.



APPROVED:

The President

Secretary of State

Secretary of the Treasury

Exhibit II

(Document approved and signed by the Secretary)

TO: Secretary Morgenthau
 FROM: Mr. Harris

Mr. Frank J. Foley, attorney for the French line, has requested advice with respect to the position of the Treasury and other interested Departments on equipping the SS NORMANDIE with defensive armament to afford protection against submarine and airplane attack. It is proposed to obtain the armament in Canada or in the United States, and in either case to install it on the vessel in the Port of New York.

If the NORMANDIE were armed within our jurisdiction, even though not for offensive purposes, and without altering its chief purpose as a vehicle of commerce, it would thereby give us notice that it will engage at sight any enemy submarine or airplane which it may encounter. For that reason we would appear to be burdened with a duty to endeavor to prevent departure from our waters of the NORMANDIE if it acquires its armament here. (2 Hyde, International Law (1928) p. 716.) It may also be observed that we will not be involved if the NORMANDIE should proceed to a Canadian port under foreign conveyance and arm itself there.

Accordingly, I recommend that Mr. Foley be advised that the United States will not permit the NORMANDIE to be equipped with any armament in any port of the United States or in American territorial waters.

APPROVED:

The President

Secretary of State

Secretary of the Treasury

WHF:HCvls 9/15/39



TREASURY DEPARTMENT

WASHINGTON

September 15, 1939

TO: Secretary Morgenthau
FROM: Mr. Harris

Mr. Frank J. Foley, attorney for the French Line, has requested advice with respect to the position of the Treasury and other interested Departments on equipping the SS NORMANDIE with defensive armament to afford protection against submarine and airplane attack. It is proposed to obtain the armament in Canada or in the United States, and in either case to install it on the vessel in the Port of New York.

If the NORMANDIE were armed within our jurisdiction, even though not for offensive purposes, and without altering its chief purpose as a vehicle of commerce, it would thereby give us notice that it will engage at sight any enemy submarine or airplane which it may encounter. For that reason we would appear to be burdened with a duty to endeavor to prevent departure from our waters of the NORMANDIE if it acquires its armament here. (2 Hyde, International Law (1922) p. 716.) It may also be observed that we will not be involved if the NORMANDIE should proceed to a Canadian port under foreign convoy and arm itself there.

Accordingly, I recommend that Mr. Foley be advised that the United States will not permit the NORMANDIE to be equipped with any armament in any port of the United States or in American territorial waters.

Basil Harris

APPROVED: September 15, 1939.

[Signature]
The President

[Signature]
Secretary of State

[Signature]
Secretary of the Treasury

9-15-39



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Mr. Cochran and Mr. White each have
a copy of attached.

(Document submitted to Secretary by
Canadian Ambassador to the U.S.)

*Mr. White
has with
Mr. Cochran*

PROPOSED PRESS RELEASE

The Minister of Finance announces that for the purpose of regulating and controlling transactions in foreign exchange, a Foreign Exchange Control Board has been established by Order in Council dated passed under authority of the War Measures Act. The Board has been given wide powers over dealings in foreign exchange, payments of Canadian dollars from a Canadian resident to a non-resident, and the mobilization of foreign or optional pay securities owned by residents of Canada.

The Order came into force

.....

The members of the Foreign Exchange Control Board are:-

Graham Ford Towers, Governor of the Bank of Canada.

William Clifford Clark, Deputy Minister of Finance.

Hugh Day Scully, Commissioner of Customs, Department of National Revenue.

Leolyn Dana Wilgress, Director of Commercial Intelligence Service, Department of Trade and Commerce.

Norman Alexander Robertson, First Secretary, Department of External Affairs.

The Bank of Canada has been appointed technical advisor to the Board, and will act as agent and banker for the Board to deal in foreign exchange on its behalf.

The Minister explained that the Government had decided that a policy of foreign exchange control ~~was in the national interest and, in fact,~~ absolutely essential to the successful organization of Canada's war-time activities. During the course of the war it will be necessary to make sure that the country's foreign exchange resources are used in the national interest. Movement of Canadian capital to

other countries for purposes which cannot be regarded as necessary or desirable would be bound to hamper Canada's war efforts, and should therefore be ^{prevented} ~~avoided~~. Such a policy does not involve interference with legitimate commercial transactions, nor with ^{the ordinary flow of} funds required for servicing our foreign debt.

The main objects of export control in war are to conserve supplies for the use of this country and allied countries, and to prevent exports from this country reaching the enemy directly or indirectly. The licensing arrangements now being made provide the machinery for achieving these results. As regards imports, no prohibitions are set up in the Order in Council, but the licensing provisions enable importers to prove that their foreign exchange requirements are based on normal commercial transactions.

The Minister pointed out that everything possible has been done to ensure that the new machinery will commence to function across the country with the minimum of confusion and uncertainty. Obviously a major change of this kind cannot be introduced without some misunderstandings and difficulties, but the Foreign Exchange Control Board will do its utmost to provide a speedy solution of the problems which are bound to arise. The Minister pointed out that the arrangements inevitably impose extra work on those who are engaged in foreign transactions of any kind, and expressed the belief that those concerned would be willing to bear with such disadvantages, recognizing that the things which it is sought to accomplish by exchange control are vital in relation to Canada's war effort.

1 (B)

Following is a summary of the main provisions of the Order and the Regulations which have been published by the Foreign Exchange Control Board:

(1) Any resident of Canada having in his possession, ownership or control any foreign exchange, bank deposits abroad, bills of exchange, or any other forms of foreign exchange, having a total value of more than \$1,000, must declare such foreign exchange to the Board forthwith. Forms for this purpose can be obtained from any chartered bank.

Any foreign exchange subsequently acquired must be declared in the same manner.

(2) In addition, any resident of Canada having in his possession, ownership or control any bonds, debentures and similar securities which are not payable exclusively in Canadian dollars, and shares in a Company whose head office is outside Canada, having a total value of more than \$1,000, must declare them to the Board forthwith. Forms for this purpose may also be obtained from any chartered bank.

(3) Rates at which transactions in foreign exchange may be made will be announced by the Board. All Canadian branches of chartered banks have been appointed authorized dealers in foreign exchange, and no person may buy or sell or in any way deal in foreign exchange except through the medium of authorized dealers or, in certain cases, through the Post Office. There are no exceptions to this.

(4) No Canadian resident may transfer any Canadian dollars to a non-resident in excess of \$100 in any month without first obtaining a permit to do so. The application for the necessary permit may be made through an authorized dealer.

(5) No exports or imports of any kind, including shipments of currency, securities and foreign exchange by mail or parcel post, may be made without obtaining a licence. Licences for the export and import of goods and merchandise and for the import of securities and other property may be obtained through Customs officers. Licences for the export of currency, securities and foreign exchange may be obtained through authorized dealers only. It should be noted particularly that articles to be sent out of Canada through the mails should be taken to a Post Office; if dropped in a post box they are subject to seizure in the absence of evidence that a licence has been obtained, or that the shipment is

exempt from licence, as the case may be.

(6) Special provision is made with respect to ordinary transactions by the general public. For example, any person may purchase, through an authorized dealer or the post office, foreign exchange to an amount not exceeding \$100 in any month, without using the permit forms required for larger purchases. Similarly, any person may import goods up to a value of \$100 in any month without licence, and may export by mail or parcel post gifts up to a value of \$25. in any month without licence.

Travellers will not require a licence when bringing into Canada or taking from Canada their automobiles and personal effects. Other goods to a value of \$100 and money not in excess of \$100 may be taken in or out of Canada by any person not more than once in any calendar month without licence. For larger amounts a special permit for travellers must be obtained. Non-residents, however, may, on leaving Canada, take with them any amount of Canadian currency or foreign exchange not in excess of the amount which they brought into Canada with them. A special form will be available for non-residents entering Canada to declare the amount of money brought with them, and this form will be surrendered on leaving Canada. No formalities are necessary, of course, for amounts under \$100.

(7) Heavy penalties by way of fine or imprisonment are provided for anyone breaking the law as established by the Order.

(8) Full information as to the effect of the Order can be obtained from authorized dealers and customs officers, or by enquiry directed to the General Secretary of the Foreign Exchange Control Board, Ottawa, or to the Bank of Canada, Ottawa.

The following is a more detailed summary of the main provisions of the Foreign Exchange Control Order and of the Regulations published by the Foreign Exchange Control Board:

FOREIGN EXCHANGE

All foreign exchange which, or any right, title or interest in or to which, is in the possession, ownership or control of any resident of Canada shall, if having a total value of more than \$1,000, for any person, be declared to the Board on forms obtainable from the Board or any bank, and no foreign exchange shall be used or dealt with except as permitted by the Board. Any foreign exchange acquired subsequently must be declared in a similar manner. If the Board deems advisable it may require that any such foreign exchange be sold or assigned to it or to authorized dealers at rates prescribed by the Board.

The chartered banks of Canada have been appointed authorized dealers in foreign exchange and the Board will from time to time communicate to authorized dealers rates of exchange at which foreign exchange may be purchased and sold.

Every person desiring to buy or sell foreign exchange must make application to an authorized dealer, except that all Postmasters have been appointed agents of the Board to sell foreign exchange in the form of postal money orders payable in United States dollars or sterling up to an amount of \$100 to any person in any month.

An authorized dealer can only deal with an application for foreign exchange if in his opinion the application is for normal requirements. Otherwise the application must be submitted to the Board. Normal requirements mean:

(a) Foreign exchange for payment for goods imported or to be imported into Canada within the usual scope of the applicant's business.

(b) Foreign exchange for payment for services of a normal nature such as insurance premiums and claims, agents' commissions, salaries, freights, dues, patent rights, royalties and other payments of a like character.

(c) Foreign exchange for reasonable travelling expenses or personal expenses.

Every person desiring to obtain foreign exchange to be used for the payment of interest on any loan, or for repayment or amortization of any loan or any part thereof, or for the redemption of any securities or the payment of dividends shall apply to an authorized dealer therefor at least 30 days before such foreign exchange is required, and every such application must be submitted by the authorized dealer to the Board.

The Board can approve or reject, in whole or in part, any application submitted to it.

Any person may, however, purchase from a bank or post office at the rate prescribed by the Board, foreign exchange in the form of cash, cheques, postal notes and money orders in United States dollars or sterling without obtaining any permit, to a value not exceeding \$100 in any month.

Similarly, any person may sell to an authorized dealer at the rate prescribed by the Board, foreign exchange in the form of cash, cheques, bond coupons and dividend warrants, postal notes and money orders, not arising out of the proceeds of exports, to a value not exceeding \$500., without obtaining any permit.

TRANSFER OF CANADIAN CURRENCY TO NON-RESIDENTS

No Canadian currency or any right, title or interest therein or thereto shall be transferred by any resident to a non-resident, or transferred from the account of a resident to or to the account of a non-resident, in excess of \$100 in any month by any person, except under a licence or permit which may be obtained through an authorized dealer.

FOREIGN SECURITIES

All foreign securities which, or any right, title or interest in or to which are in the possession, ownership or control of a resident of Canada, shall, if having a total value of more than \$1,000. for any person, be declared to the Board on forms obtainable from the Board or any bank. Such foreign securities may be bought and sold in Canada, but shall not be exported or imported except as permitted by the Board, by licence obtainable through authorized dealers.

If the Board deems advisable, it may require that any such securities shall be transferred to His Majesty in right of Canada, and shall pay compensation therefor.

EXPORTS

No person shall export any goods, currency, securities, foreign exchange or other property from Canada except under and in accordance with the terms of a licence granted by the Board. This does not apply to any property which has been accepted for export by any transportation agency prior to the date on which the order came into force.

Similarly, no person shall accept payment in Canadian dollars for any property exported or to be exported by him except under and in accordance with the terms of a permit granted by the Board. This does not apply with respect to any sale for export made prior to the

date on which the order came into force.

No licence or permit to export is required in the case of gifts to a value not exceeding \$25 in any month sent by mail or parcel post by any person in any calendar month. Non-residents may take out of Canada goods to a value of \$100 not oftener than once in any month without licence. Travellers may take out their automobiles, personal effects and Canadian currency and foreign exchange not exceeding \$100 in any month without licence. For larger amounts of money a special permit for travellers is necessary, but non-residents leaving Canada may, without licence or permit take out of Canada as much money as they brought in; and if a licence to import the same was obtained at the time of entry, such licence shall be conclusive evidence of the amount so brought in.

Exporters making regular shipments of such a kind that it would be difficult to obtain a Particular Licence in advance of each export may obtain direct from the Board General Licences to export goods subject to a declaration being made subsequently as to each exportation. In other cases Particular Licences to export goods must be obtained through Collectors of Customs and Excise before the goods leave Canada.

In all cases of export of goods where no foreign exchange is to become available, a permit must first be obtained in advance through an authorized dealer.

Applications for permission to export foreign exchange or Canadian currency (including travellers' cheques) for travel purposes in excess of \$100., must be made through an authorized dealer, and also all applications for licence to export foreign exchange, currency and securities for other than travel purposes.

IMPORTS

No person shall import any goods, currency, securities, or other property into Canada except under and in accordance with the terms of a licence granted by the Board. This does not apply to any property which has been shipped to Canada from the country of export prior to the date on which the order came into force.

Similarly, no person shall make payment in Canadian dollars for any property imported or to be imported by him except under and in accordance with the terms of a licence or permit granted by the Board. This does not apply to any purchase for import made prior to the date on which the order came into force.

No licence is required for the importation of goods to a value not exceeding \$100 by any person not more than once in any month, nor for the bringing into Canada of currency and foreign exchange not exceeding \$100 by any person not more than once in any month. No licence is required for a traveller's personal effects or automobile. Travellers' samples may also be brought in without licence.

Licences to import may be obtained through Collectors of Customs.

NEWFOUNDLAND

All the requirements mentioned above with regard to the licensing of imports and exports and the disposal or purchase of the relative foreign exchange apply to exports to and imports from Newfoundland, except that a resident of Canada may pay or transfer Canadian currency to a resident of Newfoundland (whether in Canada or Newfoundland) without a permit; and a resident of Canada may, without obtaining a special permit, export to Newfoundland property for which no payment in foreign exchange is to be

received, and may accept payment in Canadian dollars for such export.

EXCHANGE FUND

In 1935, under the provisions of the Exchange Fund Act, the Bank of Canada was directed to value all gold held by it as reserve at the current market price. The profit derived from this revaluation was set up in a special account in the name of the Minister of Finance.

Section 6 of the Exchange Fund Act provides that, on proclamation by the Governor-in-Council, the Minister of Finance can cause any balances in this special account to be invested in gold, foreign exchange, or balances with any bank in London or New York for the purpose of controlling the external value of the Canadian dollar.

Section 6 of the Exchange Fund Act has been proclaimed by the Governor-in-Council, concurrently with the enactment of the Foreign Exchange Control order. Subject to the instructions of the Minister of Finance, the Minister's powers under Section 6 may now be exercised by the Foreign Exchange Control Board, and all moneys in the special exchange fund account will be at the disposal of the Board.

PENALTIES

Heavy penalties are provided for anyone not complying with the law as established by the Order.

Every person guilty of an offence under the Order shall be liable on summary conviction to a fine not exceeding \$1000 or to imprisonment for not more than six months, or to both fine and imprisonment.

In addition, if any person ~~was~~, contrary to the provisions of the Order, exports or attempts to export from Canada any goods or other property or imports or attempts

to import into Canada any goods or other property, or buys or sells or otherwise deals with or attempts to buy or sell or otherwise deal with any foreign exchange or foreign securities, or fails to declare any foreign exchange or foreign securities, may be fined a sum not exceeding the value of the same, or \$500, whichever shall be the greater.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 15, 1939.

TO Secretary Morgenthau
FROM Mr. White
Subject: The Canadian Situation.

1. What is Canada's outstanding debt condition?

The national debt of Canada is \$3,642 million. About 25 percent of this debt is payable abroad, half in dollars and half in sterling.

In addition, Canada has a guaranteed debt (chiefly from the Canadian National Railway) of \$1,085 million.

The outstanding debt consists of \$155 million 90-day bills and the remainder in long-term obligations.

2. How much new financing does Canada have to do in the next eighteen months?

During the next eighteen months (up to March 15, 1941) there will be \$155 million short-term bills currently turned over and \$345 million of domestic bonds matured. In addition, the current budget carries a deficit of \$60 million for the fiscal year ending March 31, 1940, and Parliament has just voted war expenditures of \$100 million to be raised partly by taxation and partly by borrowing. It appears that this \$100 million will take care of her additional needs for many months to come.

The Government seemingly has not yet decided as to the extent to which Canada will participate in the war. They are opposed as yet to the sending of any expeditionary force and plan to assist chiefly with technical staffs and supplying equipment and war supplies.

3. How did Canada finance the last war?

Canada borrowed about \$2 billion during the last war, of which about \$ $\frac{1}{2}$ billion was raised in New York. Four-fifths of her war expenditures (i.e., additional expenditures

caused by war) was raised by borrowing and one-fifth was paid out of revenue.

Canada began the war by increasing excise taxes and customs duties. It was only in 1916 that Canada first introduced the excess profits tax and in 1917 that she introduced a low, progressive income tax. These two taxes did not yield large revenues until after the war. During the course of the last war interest rates rose from an average of 3.5 percent to 5.1 percent. Canada carried out the bulk of her financing throughout the war at an average interest rate of about 5 percent. The annual interest burden on the national debt, which was only \$13 million in 1914, rose to \$108 million in 1920.

4. How does Canada propose to finance the current war?

According to a speech made by the Acting Minister of Finance before Parliament on September 12th, the Canadian Government proposes to finance the war as follows:

(a) Adhere to a pay-as-you-go policy as far as possible. Though the exact source of taxation was not indicated, it is reported in the press that the individual income tax rates will be increased; corporation income taxes have already been increased slightly; and excise taxes on tobacco and liquor will be increased.

(b) By borrowing on short-term bills during the early months of the war, and to postpone any large long-term borrowing until later after the industrial boom was in full swing. There apparently will be a definite attempt made not to finance any of the Government needs through new issues of currency, but the expansion of bank credit will be encouraged to facilitate industrial expansion until there is almost full employment of labor and equipment. Such expansion will, of course, call for increased note issues.

5. What is Canada's tax burden?

The burden of taxes on the Canadian people is about the same as ours but substantially less than the British. The total Dominion, provincial and municipal tax revenues consume roughly one-fifth of the Canadian national income.

(In Great Britain it is more than one-fourth.) Total Dominion tax revenues in the last fiscal year were \$436 million; provincial and municipal tax revenues total about \$400 million more.

The Canadian National Government obtains 24 percent of her revenue from sales taxes, 16 percent from customs, about 20 percent from various kinds of excise duties and 28 percent from individual and corporation income taxes. This system is obviously regressive in nature inasmuch as 60 percent of revenue is derived from consumption. If tax revenues are to be increased substantially, the increases should and probably will come from an expansion of direct taxes. In the third year of the last war Canada was forced to install progressive features in her tax system in order to raise adequate revenue.

6. What foreign exchange assets does Canada possess?

Canada has over one and three-fourths billions of gold and dollar assets as follows:

(a) About \$275 million of gold in the Bank of Canada and in the Stabilization Fund.

(b) Approximately \$340 million of Canadian short-term funds in this country.

(c) Long-term investments in the United States amount to about one and one-fourth billion dollars; with security prices rising, this latter figure will increase.

In addition, Canada is now producing about \$175 million of gold a year and about \$10 million of silver.

Canada's foreign trade position may necessitate more foreign exchange resources than she needed before because the favorable trade balance with the United Kingdom may not yield free exchange to pay for the unfavorable trade with the United States. Canada is now buying at the rate of \$12 million per month more from the United States than she sells and this balance may increase as the war proceeds.

Canada produces more gold than is necessary to take care of the unfavorable trade balance she now has with the

Secretary Morgenthau - 4 - 9/15/39

United States. Canada normally remits about \$10 - \$15 million per month in profits and dividends to the United States, but this latter item may be wholly compensated for by the re-investment of American profits in Canadian industry.

In addition, Canada has an almost equally large source of foreign revenue from the excess of tourists expenditures -- almost entirely American -- in Canada. Last year her revenue was about \$145 million from that source.

However, it must be recognized that Canada's foreign exchange problems cannot be separated from British foreign exchange problems inasmuch as Canada will unquestionably cooperate closely with Great Britain in her international economic transactions. Nevertheless, it appears at this time that Canada is not confronted with any insuperable difficulty in procuring the necessary foreign exchange for her own participation in the war for a couple of years at least.

7. American owned companies play a dominant role in Canadian industry.

The dominant role of American firms in Canadian industry will be of great assistance to Canada in financing war expansion. Not only will American firms with branches in Canada be able to plow back the profits on their Canadian operations but they will also draw funds from their American parent corporations to expand their output. Canada may therefore expect an unprecedented industrial expansion, and this will be particularly true if any difficulties arise in financing war exports directly from the United States.

Should American owned firms attempt to convert all their profits into United States dollars or to reduce their holdings in Canada, it is quite possible that Canada would forbid the export of profits or capital.

American owned mills control 40 percent of the capacity and 36 percent of the timber reserves of the Canadian newspaper industry. American owned firms produce 65 percent of all rubber goods of the Dominion and 39 percent of its iron products. Branch plants of American firms turn out 83 percent of Canadian automobile production. The Dupont interests control a considerable part of the Canadian chemical industry.

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40 percent of Canadian gold output is mined by American controlled or affiliated companies. The great American insurance companies, public utility concerns, and manufacturers of all kinds have active branches in Canada.

There is appended a list of the outstanding American corporations which have branches or which own affiliated corporations in Canada. It is readily apparent that these corporations are also the dominant concerns in their particular branches of United States industry.

8. Will Canada need to borrow abroad?

Canada can probably finance her own needs at home, at least for the first year or two of the war, if she participates in the war to no greater extent than she did in the last one. The industrial expansion which can be expected during the first year of the war will probably do little more than employ the now idle labor and equipment in Canada and this extent of industrial expansion can be financed through credit expansion and short-term financing.

Canada is beginning this war with much greater lending capacity than she had during the last war. Her national income is greater. She has a more efficient banking system and there are large American interests in Canada who can and probably will furnish much capital for the expansion of Canada's industries for the war demand.

However, Canada's borrowing program will depend largely upon the role she plays as an intermediary to obtain economic resources for Britain. If Canada and England are permitted to borrow in the United States they will doubtless try to raise substantial sums here and save their own resources, keep their own interest rates as low as possible, and minimize the reduction of the standard of living of their own people. The more funds they raise abroad the more they can conserve their foreign exchange assets.

It must not be overlooked that the United States may play an important role in financing Canada, in spite of the Neutrality Act, through an expansion of American industrial investments in Canada.

9. What will happen to the exchange rate of the Canadian dollar?

During the last war both sterling and the Canadian dollar were pegged at virtual parity with the United States

dollar (sterling at \$4.75 and the Canadian dollar at 99.99 cents), but during 1932 the Canadian dollar depreciated about one-third of the amount that sterling depreciated. Since August 24 of this year the Canadian dollar has dropped to a discount of more than 10 percent.

There is less advantage to Canada in the depreciation of Canadian exchange vis-a-vis the dollar than there is for the British in depreciating sterling exchange.

In the first place the financial and economic ties of Canada and the United States are very close and an unstable exchange rate between Canadian dollar and the United States dollar causes a great deal of annoyance and expense to a relatively large portion of the population of Canada. A large part of the Canadian population has some economic relations with Americans through mutual tourist travel, through small business relations in buying and selling across the frontier, and in many other ways.

Secondly, Canada buys much more from the United States than she sells here, and as Canadian exchange declines it becomes more expensive for her to buy her needed commodities here and more difficult to sell to the United States. Most of Canadian imports from the United States are products that she must have in her war-time economy, while her exports are of a character which are not stimulated by a lower rate of exchange. The prices which Canada can obtain for nickel, newsprint, aluminum, copper, lead, silver, are fixed either by monopolistic control (in most cases American control) in the particular industries, or by world markets beyond Canada's control. Canada therefore has a great deal to lose in her balance of trade by depreciating her exchange rate.

On the other hand Canada may gain by depreciation with respect to the American capital invested in Canada. The interest and profits which American investors may draw from Canada will be reduced in terms of United States dollars, and the Canadian Government may have greater success in inducing the American investors to reinvest in Canada to await a subsequent rise in Canadian exchange back to parity.

10. Has Canada enough skilled labor to achieve the anticipated industrial expansion?

There is inadequate evidence available to us to draw any conclusion on this point but Canada will probably be able to draw upon the United States labor supply for those types of skilled labor in which she has a shortage.

Secretary Morgenthau - 7 - 9/15/39

11. Is there danger of inflation in Canada?

On the basis of the experience of the last war one may expect that sharply rising price levels in Canada will eventuate only if the war is prolonged. During the last war the cost of living barely rose in the first two years while wholesale commodities rose less than 10 percent. It was not until the third year of the war that prices in Canada rose sharply.

However, there is danger that if the industrial expansion proceeds very rapidly and Canada is unable to borrow extensively in the United States there will be some price inflation in Canada. The Canadian Government authorities are fully cognizant of the possibility of inflationary price rises and there is every indication that the Government is planning to take steps to control any rise in prices that might take place.

12. What was the business situation in Canada at the outbreak of the war?

Economic conditions in Canada before the outbreak of the war were good and improving. The prospective wheat crop was the largest wheat crop since 1928. Mining and electric power production had reached all-time peaks and construction activity was greater than at any time since 1929. Manufacturing activity, however, was still considerably less than in the summer of 1937 and constituted the least prosperous sector of the Canadian economy. Manufacturing activity had already received considerable stimulus from war orders placed in Canada by the British.

Employment in Canada in August 1939 was appreciably less than during the Fall of 1937 and almost 1 million workers were receiving agricultural and urban relief.

Commodity prices in August 1939 were slightly lower than in the same month of the previous year and 15 percent below the level of August 1937. Wheat prices were very nearly at an all-time low.

13. What is Canada's trade position?

Canada normally exports more than she imports. During the first seven months of this year her favorable trade balance was almost \$90 million. Canada trades principally with the United States and the United Kingdom. These two countries together take three-fourths of her exports and supply about the same proportion of her imports. Germany and France are a negligible factor in her trade.

The important thing in Canada's trade situation now is that she has an unfavorable balance with the United States of \$12 million per month which in the past was compensated for by a sharply favorable balance with the United Kingdom of almost double that amount. Now, however, the sterling balances she will acquire from her export excess with the United Kingdom, if used to settle her American balances, will make more difficult the position of the United Kingdom.

Canadian imports from the United States cannot be curtailed very much because they consist chiefly of commodities which she will need in her war economy - iron and steel, machinery, petroleum, coal, chemicals, and raw cotton, which account for half of her imports. Canada may be able to reduce her non-essential imports from the United States by as much as \$100 million a year if she adopts, as she probably will, some system of restriction on imports (curtailment of specific imports). The decline in Canadian exchange will facilitate this process. However, imports of commodities needed for war economy will doubtless increase so that the total of imports from the United States may soon be greater than they have ever been in peace time. Any expansion of the industrial base of Canada is predicated upon increased exports from the United States. The extent of this increase, however, will be strictly limited by her need for conserving British Empire foreign exchange assets.

Canada is fortunate with respect to the character of her exports inasmuch as the bulk of them consist of commodities which are important during war time. Paper pulp and newsprint, timber, non-ferrous metals, and foodstuffs account for the bulk of her exports.

During the last war Canadian exports increased much more rapidly than imports and her favorable balance of trade continuously increased throughout the progress of the war. (Tables on trade are appended.)

Canada - Monthly Foreign Trade, 1938 and 1939

(In millions of Canadian dollars)

: Months :	1938			1939		
	: Exports :	: Imports :	: Excess of : : Exports :	: Exports :	: Imports :	: Excess of : : Exports :
Jan.	60	49	11	69	44	25
Feb.	49	47	2	57	40	17
March	65	65	-	69	55	14
April	50	49	1	51	42	9
May	66	41	25	79	73	6
June	66	58	8	77	64	13
July	66	55	11			
August	60	57	12			
Sept.	72	56	16			
Oct.	77	64	23			
Nov.	86	63	23			
Dec.	79	44	25			

Canada-Trade by Principal Countries, 1936-1938
(In millions of Canadian dollars)

	Exports of		Imports	
	Canadian Producer	1937	1938	for Consumption
	1937	1938	1937	1938
Total	1,110.2	913.4	808.9	677.5
U. S.	470.2	345.9	490.5	424.8
U. K.	404.6	339.7	147.3	119.3
Australia	30.6	35.0	12.1	9.0
Japan	25.9	21.1	5.9	4.6
Germany	11.7	18.3	12.0	9.9
New Zealand	14.7	16.4	7.6	4.6
British So. Africa	16.6	15.5	8.2	2.0
Netherlands	12.5	10.3	3.4	3.8
Belgium	17.1	9.6	7.9	6.2
France	8.4	9.2	6.7	6.1
Newfoundland	9.1	8.4	2.5	2.2
Norway	6.2	7.9	.8	.7
British Malaya	2.7	2.4	15.8	10.3
British W. Indies	11.1	11.0	12.2	13.0
British India	4.7	3.0	9.5	8.4

Canada - Trade by Leading Commodities, 1936-1938

(In millions of Canadian dollars)

	1936	1937	1938
<u>Exports of Canadian Products</u>			
Total	1,015	1,110	913
Paper and products	111	136	113
Precious metals	92	132	99
Wheat	227	124	89
Wood, unmanufactured	63	80	67
Iron, steel and mfrs.	52	66	60
Copper and mfrs.	37	56	53
Nickel and mfrs.	45	59	53
Fish and products	25	20	27
<u>Imports for Consumption</u>			
Total	635	809	678
Iron, steel, machinery and mfrs.	135	211	163
Petroleum and products	50	59	56
Coal, coke and products	40	42	39
Chemicals and products	32	37	35
Wool and mfrs.	28	36	25
Fruits	24	26	21
Sugar and products	21	21	21
Raw cotton and linters	20	20	13