

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 5, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *SA*
 Subject: The Business Situation,
 Week ending February 3, 1940.

Conclusions

(1) Industry at present is going through a period of cautious waiting, pending the appearance of some new influence sufficiently important to start a renewed upturn in new orders. In the meantime, the FRB index has declined from 128 in December to about 120, according to a tentative estimate for January.

(2) The rate of operations in the steel industry declined 5 points to 77 per cent of capacity last week. Preliminary indications are that it will decline again this week to 72 per cent.

New steel orders have fallen off somewhat, though remaining well above the low levels of early January. A recent weakening in some steel prices has tended to restrict new buying.

(3) The rise in industrial production during the latter half of 1939 has had less than the usual effect in increasing employment, apparently due in part to a trend toward a more sparing use of labor in manufacturing processes, which has been in evidence since the summer of 1938.

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The general situation

The Federal Reserve Board now estimates tentatively that the FRB index will drop to 120 in January, down 8 points from the December figure. In place of a seasonal expansion during January, actual production has apparently been slightly lower than during December. This may have been due in part to the severe cold weather, but the chief reason has doubtless been the current low level of new orders, coupled with a depletion of unfilled orders. Other indices confirm this slackening in industrial activity. Department store sales during the first three weeks of January showed more than a seasonal decline, and freight car loadings during this period showed less than a seasonal increase.

Secretary Morgenthau - 2

Industry at present seems to be going through a period of cautious waiting, with businessmen unwilling to make important commitments until the business outlook can be more clearly appraised. At the moment, trade observers can foresee no active influence during the months immediately ahead sufficiently powerful to overcome the present receding tendency in business, unless large-scale hostilities should break out in Europe and the demand for war materials should greatly increase. Even in that event, there is considerable uncertainty as to whether the initial shock might not have an unfavorable reaction on business in this country.

Industrial and speculative demand has consequently slackened as the time for the "spring offensive" in Europe approaches. Stock and commodity prices, in attempting to discount the various uncertainties ahead, have apparently drifted into a position similar in some respects to that preceding the outbreak of war last September.

The steel situation

The rate of steel activity continues to slacken, since the present volume of new orders is substantially below the level of steel output. The industry last week operated at a rate of 77 per cent of capacity, down 5 points from the previous week's figure. According to preliminary estimates from the American Iron and Steel Institute the rate for this week will decline again to 72 per cent.

The rate of incoming orders, as reported by the United States Steel Corporation last week, was equivalent to about 54 per cent of capacity. This is somewhat lower than the figure for the previous week (59 per cent), but compares with an average of 46 per cent for three weeks at the beginning of the year.

Unfilled orders of the United States Steel Corporation at the end of December remained about 1,000,000 tons higher than at the end of August, according to an estimate we have made from reported shipments and new orders. (See Chart 1) This amount, excluding new orders, would be sufficient to maintain the output of the Corporation for approximately 3½ weeks, at the current rate of about 79½ per cent of capacity. About 750,000 tons of unfilled orders had been worked off during November and December.

Secretary Morgenthau - 3

New orders for steel would doubtless be higher were it not for recent weakness in steel prices, which has led buyers to postpone new commitments in the hope of lower buying levels. Quotations on certain hot rolled sheets in Detroit are reported to have been reduced \$2 a ton, and price concessions are reported on pipe, reinforcing bars, and a few other products. The real test of steel prices -- which seems likely to mark a turning point for steel orders -- will come when the automobile companies enter the market for their spring requirements. It is believed in some quarters that they may again be successful in forcing substantial price concessions on quantity purchases of automobile steels, which may affect other steel prices.

A downward trend of steel scrap prices reflects the present uncertain outlook. Domestic mills are restricting their purchases, and export sales of scrap last week are reported to have been negligible. Great Britain has recently placed orders with leading American mills for 200,000 tons of steel ingots, according to the Iron Age and other sources, making a total of at least 400,000 tons of semi-finished steel ordered in this country since the war began.

Sales exceed income level in December

Some evidence of business maladjustment, of a type which in the past has often been followed by a temporary setback, appears in a comparison of our index of sales for December with the estimated sales equivalent of national income. (See Chart 2)

National income in December, at an annual rate of \$73.3 billions (revised series), was apparently not high enough to support the level of sales in that month, as measured by our index of sales in dollar value. This suggests that the sales level was partly supported by purchases on deferred payments, which will detract from purchasing ability in later months.

Factory employment lagging

The marked rise in industrial production during the second half of 1939 has apparently done less toward solving the unemployment problem than did the rise in production to approximately the same level in 1937. As shown in Chart 3, factory employment in December stood at an index level of 104.0, which compares with a level of 111.5 reached in May 1937, when the peak of industrial production was slightly lower.

Secretary Morgenthau - 4

The disparity cannot be accounted for by a difference in the type of recovery, since individual industries show similar trends. The number of workers employed in the steel industry (center of chart) was noticeably smaller on the recent upturn than in the 1936-37 recovery, though steel output recently has established new high records.

In the textile industry (lower section of chart), the peak of employment last year was 10.0 per cent below the 1937 peak, while the production peak was only 2.2 per cent lower.

Current business news

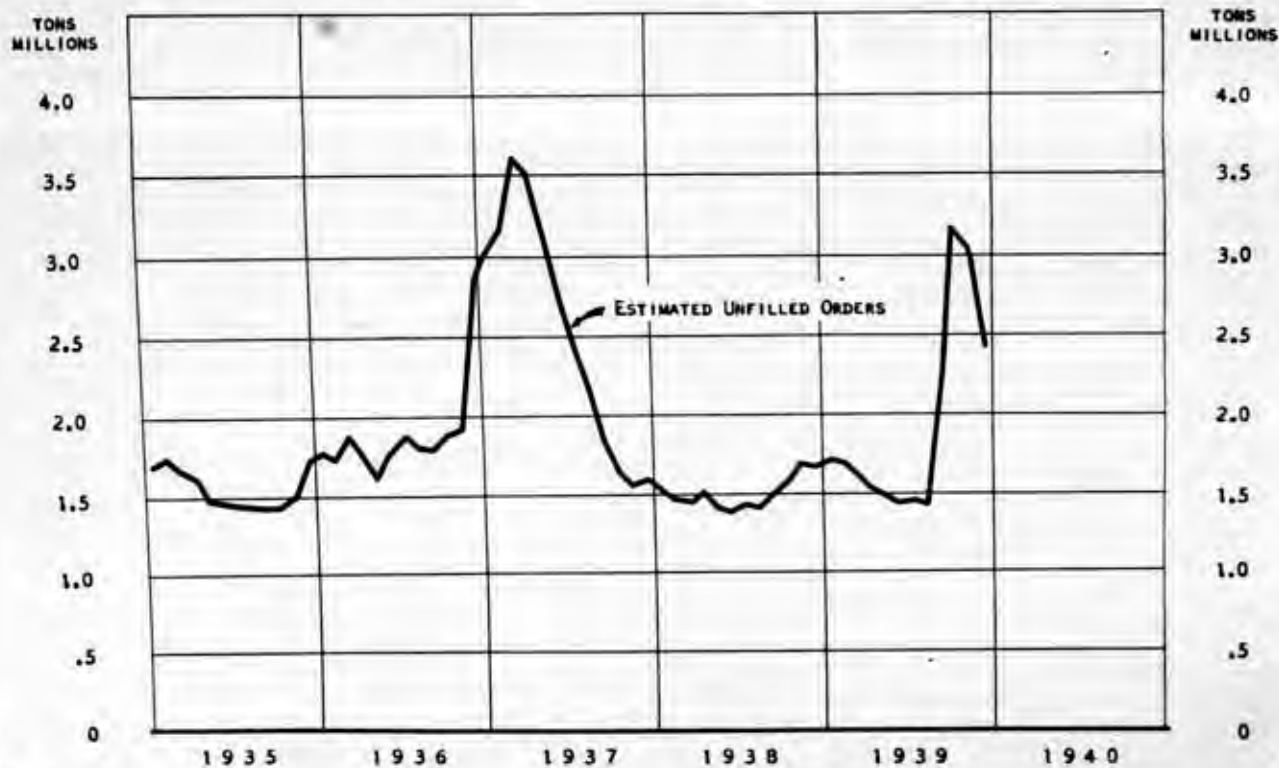
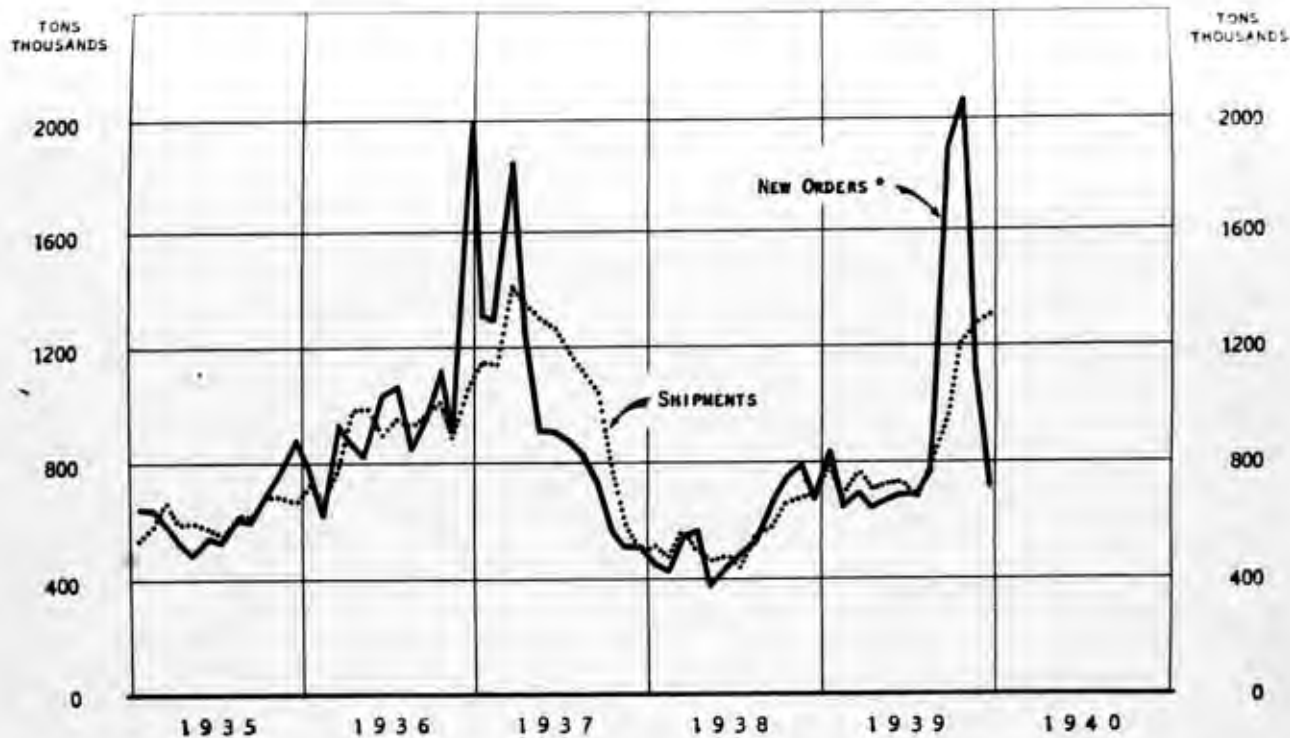
The New York Times index for the week ended January 27 declined by 0.5 point to 103.2, although automobile production increased by 5.5 points and "all other carloadings", cotton mill production, and electric power production also advanced. For the following week preliminary data indicate another increase in automobile production, another decrease in steel.

The recent increases in automobile production may not be matched in February, according to reports of expected curtailment of schedules from 465,000 cars and trucks in January to 340,000 in February. The reason given for the reduction is the increase in field stocks.

Our "index of confidence" showed a slight increase last week as prices of Moody's speculative bonds increased while prices of high grade bonds were unchanged. (See Chart 4)

For the fourth week in January the new orders index declined to 89.2 from 109.6. (See Chart 5) Steel and textiles between them explain this falling off, as the total excluding these components actually increased. Last week's low for textile orders is explained by a low figure for American Woolen following an unusually high figure in the preceding week.

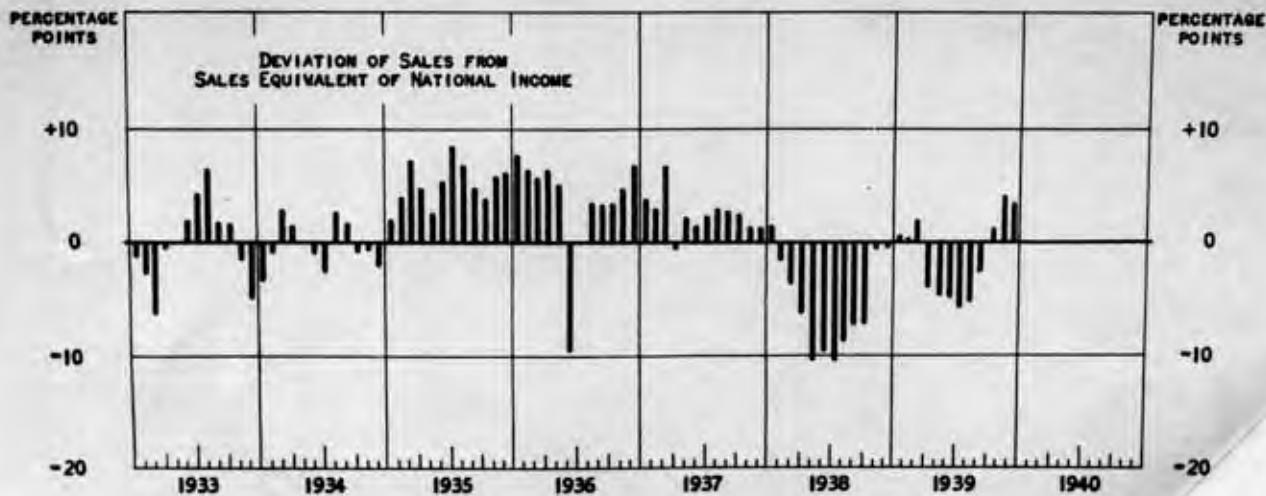
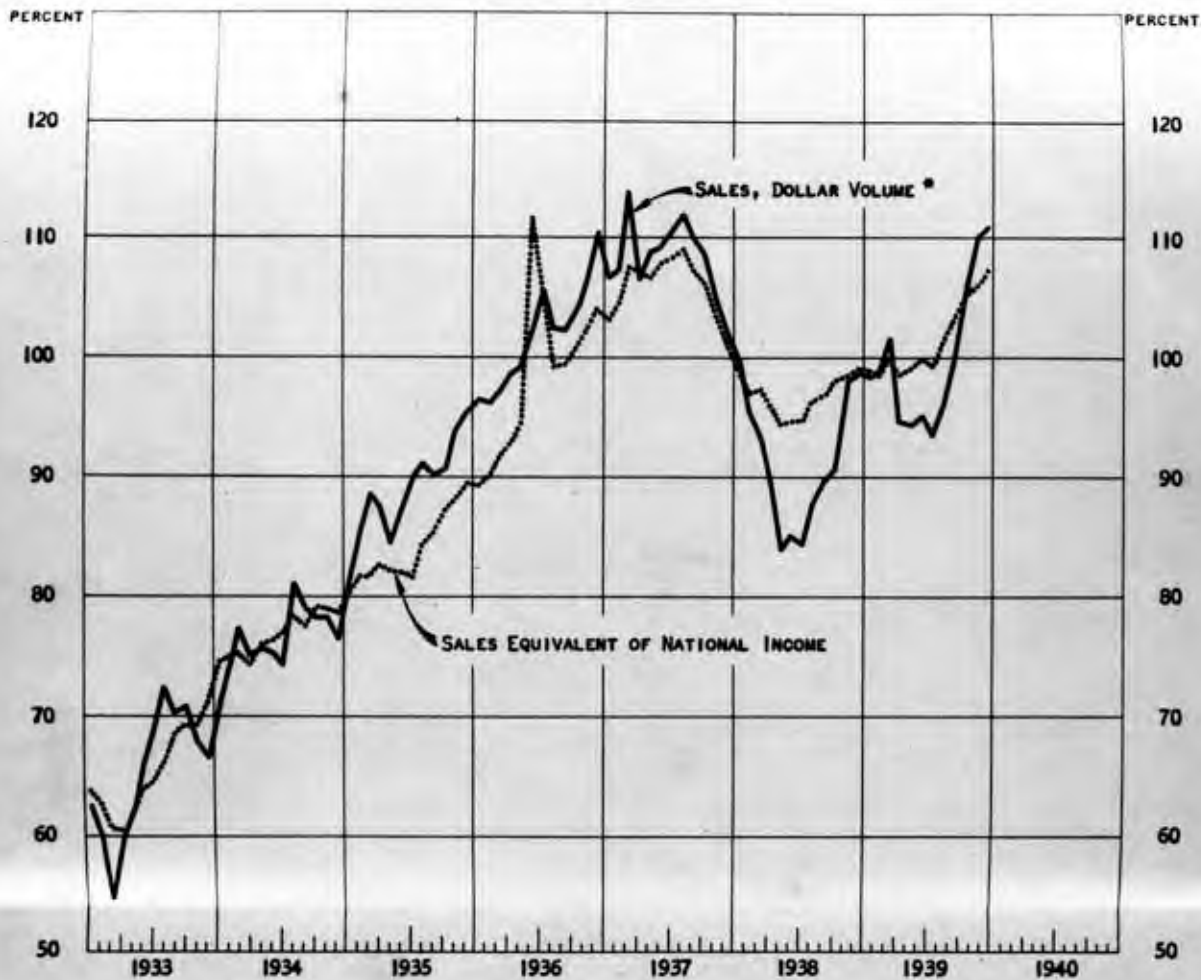
NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS
OF THE U.S. STEEL CORPORATION



* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

INDICES OF SALES AND SALES EQUIVALENT OF NATIONAL INCOME

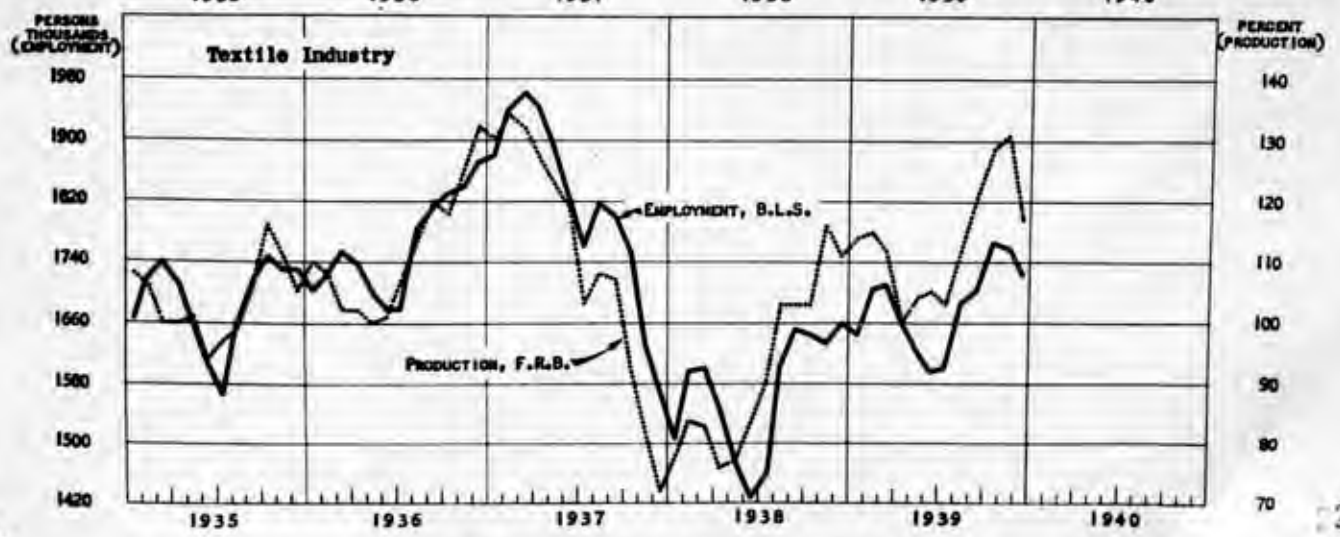
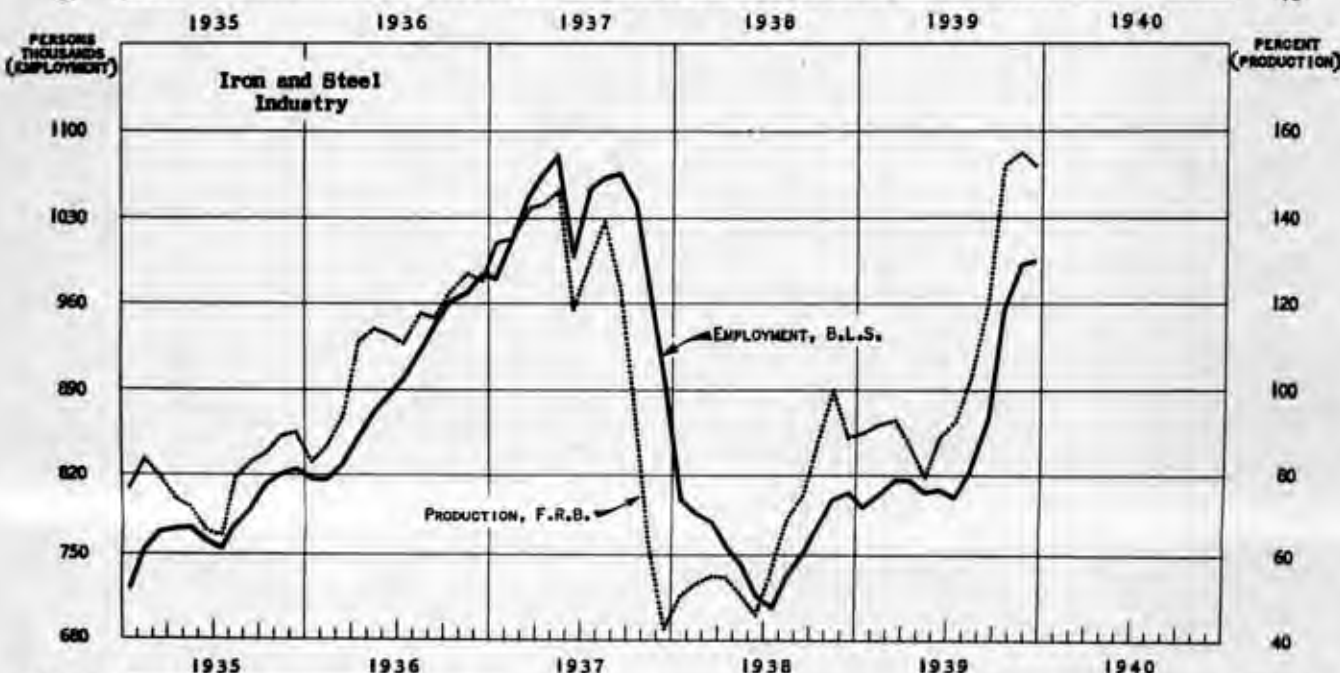
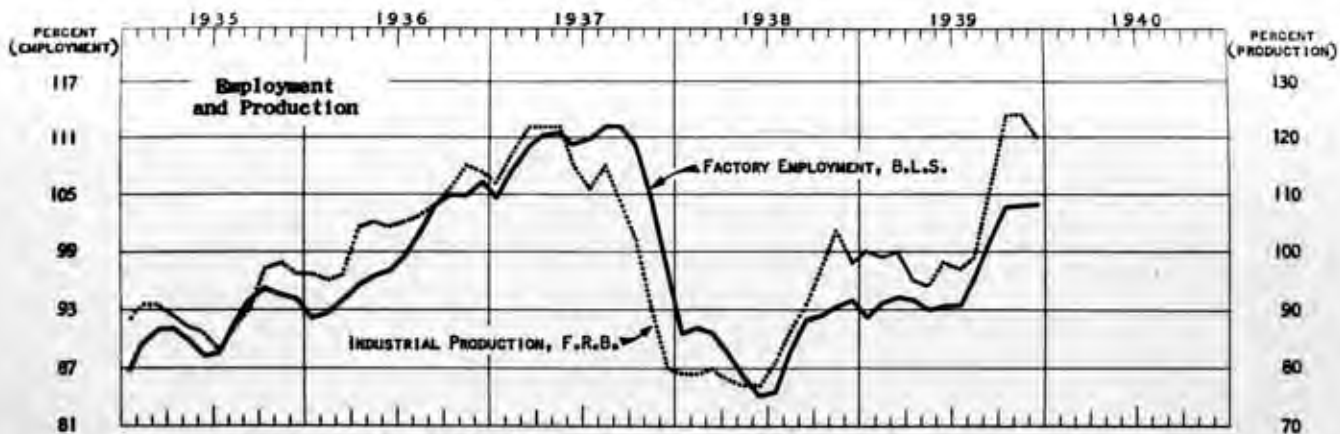
1936 = 100, SEASONALLY ADJUSTED



* REPRESENTS OFFTAKE OF MANUFACTURED GOODS

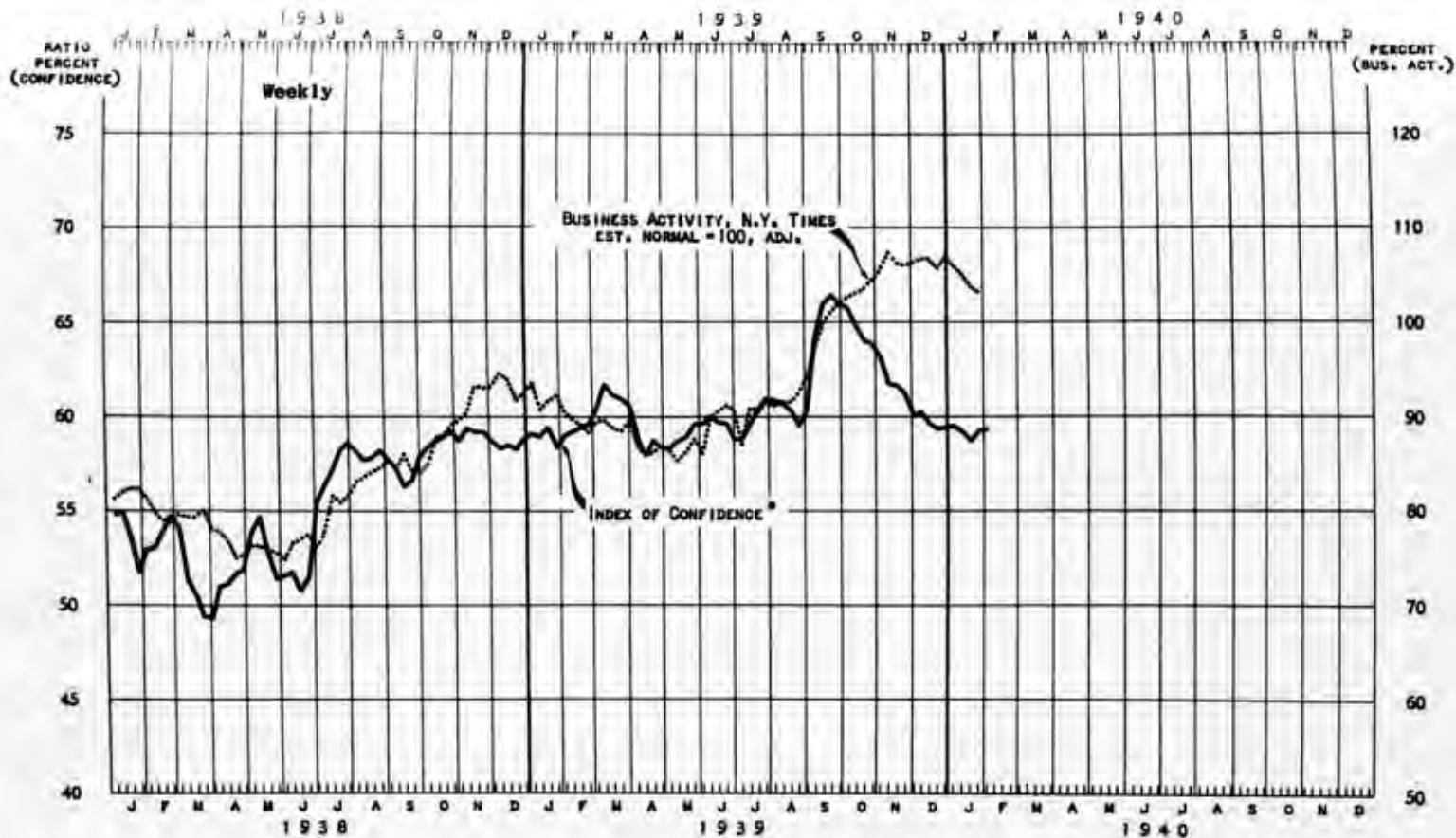
COMPARISON OF EMPLOYMENT AND PRODUCTION

1923 = '25 = 100, UNADJUSTED*



*IRON AND STEEL, AND TEXTILES, ACTUAL NUMBER EMPLOYED

INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

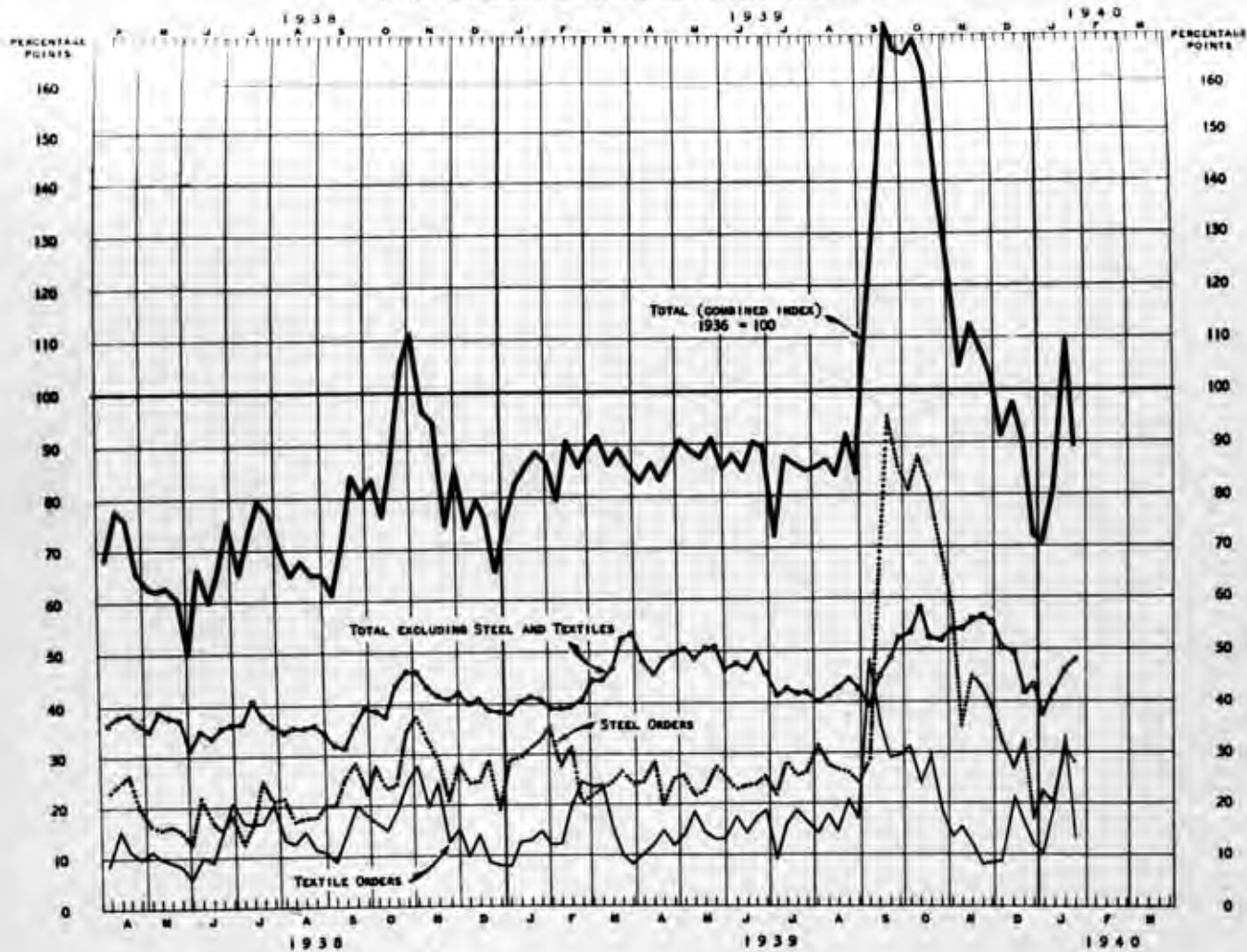
Office of the Secretary of the Treasury
Division of Research and Statistics

C-297

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Chart 4
CONFIDENTIAL

INDICES OF NEW ORDERS
 Combined Index of New Orders and Selected Components



COPPER

FEB 5 1940 943

MEXICO CITY - THE RUSSIAN STEAMSHIP MAYAKOV-
 SKY IS LOADING 5 000 ^{TONS} BARS OF COPPER FROM
 AMERICAN FREIGHTERS AT THE PACIFIC PORT
 OF MANZANILLO MEXICO SHIPS DESTINATION BEING
 VLADIVOSTOK - IT IS UNDERSTOOD THAT THE
 METAL IS CONSIGNED TO GERMANY AND WILL BE
 MOVED OVER THE TRANS-SIBERIAN RAILROAD
 -0-

ADD COPPER

12.3*

MEXICO CITY - IN PREVIOUS ITEM FIGURE SHOULD
 HAVE READ 5 000 TONS AND NOT 5 000 BARS OF
 COPPER TRANS-SHIPED FROM AMERICAN FREIGHTERS
 AT MANZANILLO TO RUSSIAN FREIGHTER MAYAKOVSKY

-0-

EXPORTS OF COPPER FROM UNITED STATES
 DESTINED FOR RUSSIA DURING DEC LAST WERE IN
 VERY HEAVY VOLUME AGGREGATING 17 057 TONS -
 OF THIS TOTAL 11 905 TONS WERE SHIPPED
 FROM NEW YORK AND 5 152 TONS FROM THE TACOMA-
 SEATTLE DISTRICT

FEB 5 1940

-0-

FEBRUARY 5th, 1940.MEMORANDUM FOR THE SECRETARY:Shipping Situation

The downward trend in the volume of freight moving to and through the Port of New York for export continues unchecked.

The Association of American Railroads report that in the first half of January they lightered an average per day of 728 cars for export; the second half of January 702 cars per day and on the first of February 697 cars. The freight in railroad terminals or warehouses awaiting loading aboard vessels occupies not over 25% of the available railroad storage facilities.

Indicating the liquid situation is the fact that on February 1st there were only 45 railroad lighters that had been lying alongside ships or steamship piers over 48 hours awaiting unloading.

Grain in elevators, barges and railroad cars at the Port of New York has declined to approximately 5 1/2 million bushels.

Grain is moving more freely from New York as well as the outports and there has been a firming up in the rate on heavy Grain to Antwerp/Rotterdam from 55¢ to 60¢ per 100 lbs.

Chairman Sinclair of the Transatlantic Associated Freight Conferences states that all the priority cargo, including steel, has been allocated among the lines sailing to United Kingdom ports without difficulty.

The net form and time charter rates are holding steady but the number of fixtures during the past week has been extremely small. The non-Conference operators and speculators who chartered ships at the rates prevailing in the early part of January are experiencing

-2-

February 5, 1940.

difficulty in obtaining cargoes even at Conference rates.

Confirmation is lacking of a report that the British government would defer until the end of February the licensing of imports of Hams, Bacon and Lard from the United States. Pending official clarification American packers are said to be trying to get as much Lard in particular to England as quickly as possible in the hope that it will be allowed entry.

Exporters and the steamship lines trading to the east coast of South America are enjoying an increasing volume of business in steel.

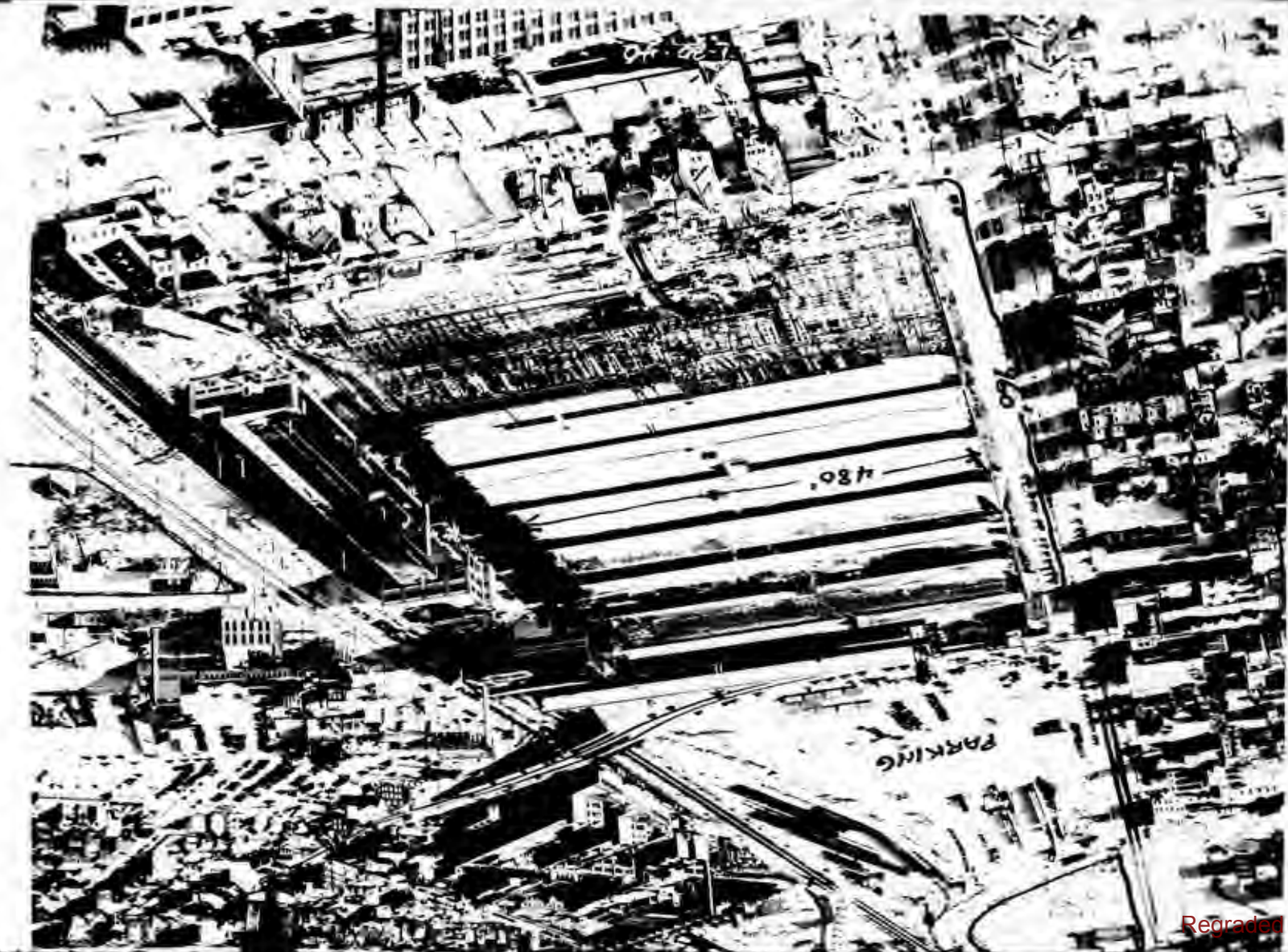
Basil Harris

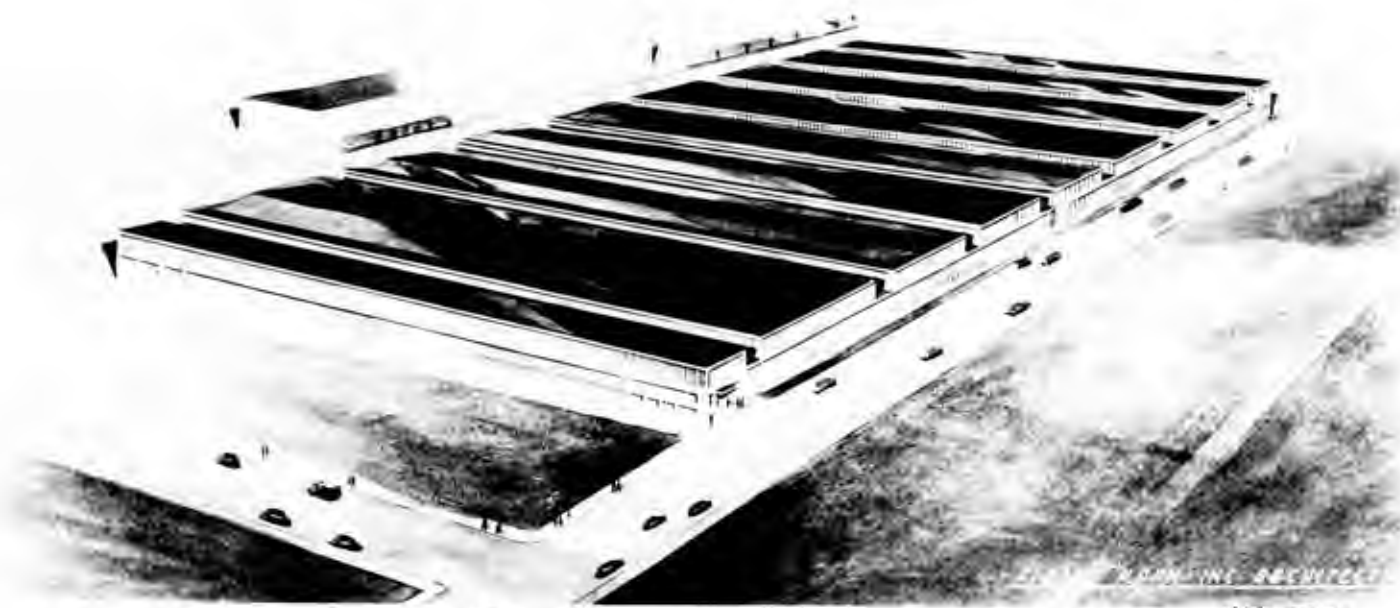
WRIGHT AERONAUTICAL CORPORATION
PATERSON, N. J.

Feb 5, 1940

229







70 Days.

THE WASHINGTON POST

WA-3671

COPY

233

Editorial Rooms
The Saturday Evening Post
The Curtis Publishing Company
Wesley Winans Stout Editor
Philadelphia

5 February 1940

Dear Mr. Secretary:

I wrote you, not Mr. Hanes, because I could interpret this rumor as being true only if it meant that Mr. Newman had borrowed money from Mr. Hanes. I could not credit the latter with knowingly "buying" an article and did not wish to go to him with such a report until we had learned more.

I am sorry that I misinterpreted your letter of the thirtieth, glad that you do know nothing of the charge.

Sincerely,

/s/ Wesley Winans Stout

The Secretary of the Treasury
Mr. Henry Morgenthau, Jr.

WWS:LG

COPY

February 3, 1940.

Dear Mr. Stout:

This will acknowledge receipt of your letter of February 1st.

You have taken an unjustified inference from my letter of January 30th. Let me say plainly that I have not heard the rumor of which you speak from any source other than your letter of January 26.

What I cannot understand is why you wrote me in the first place instead of going directly to Mr. Hanes.

Sincerely,

Secretary of the Treasury.

Mr. Wesley Winans Stout,
Editor, The Saturday Evening Post,
Philadelphia, Pennsylvania.

COPY

Editorial Rooms
The Saturday Evening Post
The Curtis Publishing Company
Wesley Winans Stout Editor
Philadelphia

1 February 1940

Dear Mr. Secretary:

Thank you for your letter of the thirtieth, which seems by its silence to say that you have heard these rumors and do not disbelieve them. I think we now have no choice but to go direct to Mr. Hanes, tell him what we have heard and, if Mr. Newman should have borrowed money from him, insist that he accept our check in repayment. This we shall do as soon as I have learned whether Mr. Hanes is in New York or in Carolina.

We knew nothing of this article until we saw the manuscript. It was badly written and caused us many hours of work, but we had no reason then to question its accuracy or the integrity of the writer. The apparent evidences of Mr. Hanes' cooperation with Mr. Newman seemed to speak for the former.

Sincerely,

/s/ W. W. Stout
per N

The Secretary of the Treasury
Mr. Henry Morgenthau, Jr.

WWS:LG

COPY

January 30, 1940.

Dear Mr. Stout:

I have received your note of January 26th.

Apparently it was written under the impression that I must have known something about the article before it appeared. That would be a logical assumption, but it isn't true in this case. My first knowledge of this story came when I read it in my copy of the Post. Those in the Treasury who usually assist writers in getting material for articles were equally ignorant.

I was the more surprised because of the care with which such articles are usually checked, not only by the Post but by other magazines. I have given a good deal of time to other writers for the Saturday Evening Post who have sought my help in writing about phases of Treasury activities. I have done this not only because I appreciated their courtesy in coming to me to supplement and verify information that affected my work, but also because I believe it to be a part of my job to be as helpful as I can in seeing that the public is accurately informed about those phases of the public's business in which I have a hand.

Under the circumstances I don't know of any way in which I can be helpful in your inquiry. I can only express the hope that the rumor you have heard may prove to be false.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Wesley Winans Stout,
Editor, The Saturday Evening Post,
Philadelphia, Pennsylvania.

HEG/mah

"Sent to main postoffice 1/30/40 a.m."

"HEG"

COPY

Editorial Rooms
The Saturday Evening Post
The Curtis Publishing Company
Wesley Winans Stout Editor
Philadelphia

26 January 1940

Dear Mr. Secretary:

We have heard an extremely disturbing report that our recent Hanes article was "bought and paid for." Certain circumstantial evidence forces us to give this report some credence.

The Saturday Evening Post would be extremely grateful to you if you would be good enough to tell us whether you have any reason to believe this report to be true, or could direct us to a source which might result in disproving or confirming it.

If you should not feel free to write us, Mr. Martin Sommers, one of the editors, would be glad to call upon you in Washington.

This is the first instance of its kind in the many years I have been connected with The Post and you will understand how seriously we take it.

Sincerely,

/s/ Wesley W. Stout

The Secretary of the Treasury
Mr. Henry Morgenthau, Jr.

WWS:LG

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: Re-exports of quartz crystals

Mr. Purvis raised the point that the United States may be re-exporting quartz crystals.

A search through the export documents indicates that there was only one shipment involving the re-export of quartz crystals during the months of November and December, 1939. It was a re-export of \$17,000 on December 7 to Japan. It was re-exported by the International Standard Electrical Corporation of New York City.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Exports to the U.S.S.R.



We have just received a report that \$40,000 of molybdenum concentrates have been placed aboard the S.S. Norbryn for export to Russia. There was also loaded five Wright cyclone engines (value \$75,320) for export under State Department export license #3877.

In addition there was almost a million dollars of copper, brass and various industrial and electrical machinery items placed on board the vessel.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Re-exports to U.S.S.R.

1. The Norwegian ship Silverplana sailed on Saturday, February 3, with the scheduled destination of Vladivostock.
2. The Norwegian steamship Norbryn has docked at the Lehigh Valley terminal and is now loading. It is due to sail on February 17, with its provisional destination as Vladivostock.
3. The Silverplana as it finally sailed carried the following cargo:

Domestic Exports:

Industrial machinery	\$1,392,868
Brass and bronze	1,199,665
Copper	509,069
Electrical machinery and apparatus	212,490
Wool rags	117,809
Wheels of artificial abrasives	31,789
Nickel-chrome electric resistance wire	22,333
Other internal combustion marine engines	16,959
" scientific and professional instruments and apparatus	14,088
All other domestic exports	42,302
	<hr/>
Total domestic exports	\$3,559,372

Re-exports:

Copper wire bars	\$322,344
Straits tin	133,943
Bolivian tin ore	52,825
Revertex Rubber	13,738
Shellac	7,872
All other re-exports	96
	<hr/>

Total re-exports

530,818

Total cargo

\$4,090,190

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: New Italian exchange subsidies



1. A cable from Rome informs us that on February 1 the Italians put into effect a new system of "exchange adjustment" which will provide Italian exporters of a long list of specified commodities with 20 percent additional lire for their exports. We will have to wait for further information before obtaining the list of specified articles and other details of the new system.

2. This new form of "particularized devaluation" evidently constitutes an outright subsidy and will require the application of countervailing duties to all our imports from Italy which obtain the 20 percent "exchange adjustment".

3. We import about \$40 million a year from Italy, of which only about one-fifth is free of duty. Three-fourths of our imports from Italy consist of foodstuffs and textiles. (Three-fourths of our exports to Italy, which total about \$55 million per year, consists of cotton, mineral oils, iron and steel scrap and copper.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 5, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Re-exports of Industrial Diamonds



1. The only recorded exports of industrial diamonds from the United States, in any form, during the period September through December 1939, were re-exports to Canada. No documents were filed involving exports of industrial diamonds to Europe, either on boats or via the Clipper.
2. United States re-exports of industrial diamonds amounted to \$259,647 in the last four months of 1939. All went to Canada.

Following are details of these exports:

	: September :	: October :	: November :	: December :
Carbons	\$ 8,000	\$ 8,699	\$ 8,695	\$ 8,695
Bortz	38,466	37,796	44,972	45,638
Bort	-	-	13,848	44,416
Misc., (scrap, Brazilian, Brown, Grey, etc.) diamonds	-	253	51	118
Total	\$46,466	\$46,748	\$67,566	\$98,867

3. The following companies exported Industrial Diamonds during this period:

The Diamond Drill Carbon Company
 Wheel Drilling Tool Company
 J. K. Smit and Sons

New York City
 Detroit, Michigan
 New York City

Division of Monetary
Research

- 2 -

4. The firms in Canada recorded as being the importers were:

Earl J. Gates, Royal York Hotel, Toronto
Wheel Drilling Tool Company of Canada, Windsor, Ontario
H. J. Meinert, Georgia Hotel, Vancouver, B. C.
J. K. Smit and Sons of Canada, c/o Henderson Bros., Toronto

HSM

PLAIN

London

Dated February 5, 1940

Rec'd 1:50 p. m.

Secretary of State,
Washington.

315, February 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

There has just been concluded the last of the annual meeting speeches of the chairmen of the British Joint Stock Banks. Apart from the actual business of the banks these addresses have been mainly devoted to two things:

- (1) Emphasizing the importance of maintaining and if possible increasing British exports and
- (2) The necessity of preventing a race between wages and the cost of living.

While all of the bank chairmen were unanimous in their recognition of the necessity of limiting internal civilian consumption to prevent a competitive inflation of prices and wages no one came out in support of Keynes' proposals for compulsory saving. McKenna was both the most sympathetic and characteristically the most specific:

"With full powers at its command and wisely used, it can determine the degree if any of inflation that will be permitted.

hsm -2- No. 315, February 5, 6 p. m., from London

permitted. Inflation is a relative term and the word deflation might more properly describe a movement such as we have had already, beginning from a low basis. It is possible that a moderate raising of the general level of prices with due safeguards for those living near the subsistence level may be no more than a healthy stimulus to energy in supplying the needs of war. Nevertheless we must not be blind to the possibility that the war, if it is of long duration, may demand more drastic methods. Perhaps nothing less than the compulsory saving of all increases of income will be needed to secure the full necessary diversion of spending power from the public to the Government. Judging from comments in the press I conclude that public opinion is not yet ripe for the imposition of a scheme of compulsory saving. But should we ever be engaged in another great war, which may Heaven avert, I believe we should at once turn our minds to a plan of the kind proposed by Mr. Keynes. We should probably find indeed that the Treasury had already worked one out in detail and that the Government of the day would include it among its first war measures."

Keynes has returned to the attack in a letter in today's TIMES:

"The Chancellor of the Exchequer has explained to the House of Commons that he is trying to prevent a rise of
wages

hsm -3- No. 315, February 5, 6 p. m., from London

wages by subsidizing the cost of living." (See paragraph 2 of my 290, February 1). "As an ingredient in a comprehensive plan this would be a wise move. As a stop-gap arrangement to gain time it might be prudent. But taken by itself it is the opposite of a solution. In making money go farther it aggravates the problem of reaching equilibrium between the spending power in people's pockets and what can be released for their consumption. It is like trying to meet the problems of war finance by taking off the duties on tea and sugar. Some hint of an awareness of this would have been reassuring. But I noticed none in his speech."

There is no doubt that much effort is being expended behind the scenes to effect a working arrangement with the trade unions but as yet there is no sign of real progress and the position is also made difficult by existing personality and policy divergencies within the Labor Party itself. One aspect of the situation which bears close watching is the effect which differences in procedural practice and disparities in the price levels between Great Britain and France will have in terms of the Anglo-French economic and financial agreements. Particularly since the franc was no doubt under-valued in terms of the pound even before the war. This aspect of the situation may tend to force the hands of the present British Government which usually is more inclined to follow public opinion than to lead it.

Incidentally

hsm -4- No. 315, February 5, 6 p. m., from London

Incidentally I have the impression that when Simon decided to embark on the subsidization policy reported in my 290, February 1, he had in mind attempting at the same time to force down if possible prices in the exporting countries of such foodstuffs.

JOHNSON

CSB

RECEIVED
FEBRUARY 5 1943

FEBRUARY 5 1943

FEBRUARY 5 1943

COPY FOR SECRETARY

EG

GRAY

Paris

Dated February 5, 1940

Rec'd 4:14 p.m.

Secretary of State,
Washington.

175, February 5, 6 p.m. (SECTION ONE)
FOR THE TREASURY FROM MATTHEWS.

The text of the commercial agreement concluded between France and Greece on January 31 is published in the JOURNAL OFFICIEL of today. The agreement enters into force today and expires on December 31, next. Imports from Greece into France in derogation of the general import prohibition under the decree of September 1 last (Embassy's telegram No. 1722, September 2, 1 p.m. and Embassy's despatch No. 4965 of September 8, 1939) are given in quantity and value in list (A) attached to the agreement; they include 20,000 quintals of oranges, 5,000 quintals of mandarines, 20,000 quintals of dried figs, 30,000 quintals of dried raisins, 600,000 quintals of magnesite, 1,000,000 quintals of pyrites of sulphur and 10,000,000 francs worth of other unnamed merchandise. Additions may be made to this list if necessary.

MURPHY

NPL:EMB

LMS

GRAY

Paris

Dated February 5, 1940

Rec'd 6:20 p. m.

Secretary of State,
Washington.

175, February 5, 6 p. m. (SECTION TWO)

List (B) designates merchandise of French origin imported into Greece which must be offset by purchases of equal value by France and includes condensed milk, fish, sugar, cement, paper, and all kinds of vehicles. List (B) specifies merchandise of a total value of 17,000,000 francs which Greece authorizes France to import into Greece under any circumstances and includes books and publications, cotton thread, dye products, and essential oils and perfumery. It is provided that payments for commercial exchanges under the agreement will be made under the existing clearing system.

The AGENCE ECONOMIQUE ET FINANCIERE reports that an internal loan of 500,000,000 florins is shortly to be floated in Holland. A certain percentage of subscriptions may be paid in treasury bills as well as in subscriptions to the recent unsuccessful 300,000,000 florin loan, approximately one half of which remained
in the

LMS 2-No. 175, February 5, 6 p. m., Sec. 2, from Paris.

in the hands of the underwriting syndicate. That journal likewise refers to the recent warning of the Dutch Finance Ministry of the possibility of a forced loan in case the forthcoming issue is a failure.

MURPHY

NPL

LMS

GRAY

Paris

Dated February 5, 1940

Rec'd 8:53 p. m.

Secretary of State,
Washington.

175, February 5, 6 p. m. (SECTION THREE)

The French financial press continues to comment (not without a certain ill-concealed satisfaction) on the problem presented to us by the large gold influx and likewise on anxiety in the United States lest disorderly marketing of dollar securities requisitioned by the British Government may have a depressing effect on our markets.

The French Bondholders Association has announced receipt of a communication from the Polish Government concerning the suspension of service on the Polish foreign debt for the duration of hostilities. (Coupons on the foreign gold stabilization loan of 1927 which fell due on October 15 have been paid as the sums necessary were placed in the hands of the fiscal agents before September 1).

MURPHY

EMB

EG

GRAY

PARIS

Dated February 5, 1940

Rec'd 6 p.m.

Secretary of State,
Washington.

175, February 5, 6 p.m. (SECTION FOUR)

The Polish Government states that it plans to make at least partial payment on coupons of that loan falling due on April 15, 1940. Thereafter payments will be suspended as they are for all other Polish foreign loans.

Trade in securities was again at a low ebb today and prices continued to drop. A rather better tendency was noted in rentes but changes were unimportant.

Official exchange rates remain unchanged.

A message to LE TEMPS from Rome states that the Bank of Italy has fixed a new rate for tourist lire which now makes the price about 18% below the official rate. Thus in dollars 100 tourist lire are worth 4.22 compared with 4.55.

(END OF MESSAGE)

MURPHY

NPL


THE WHITE HOUSE
WASHINGTON

February 6, 1940

My dear Mr. Secretary:

I take pleasure in sending you here-
with a carbon copy of the memorandum on bank
credit, submitted to you the latter part of
December.

Sincerely yours,



H. M. KANNEE

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

Enclosure

MEMORANDUM ON BANK CREDIT

It has long been an objective of the Administration -- sought unsuccessfully by amendment to the Federal Reserve Act, by the RFC and by other means -- to encourage an increase in the amount of outstanding bank credit, possibly to restore it to the high levels existing during the 1920 decade. Obviously, it is better economy for the Nation to have its record bank deposits result from loans which create new values and give employment than to have such bank deposits result from the mounting total of governmental obligations which have been issued because of unemployment and its effects.

It has been stated that the private financial system of the country as at present constituted does not work. If applied to our banks, which comprise a major factor in that system, if not its mainspring, the statement carries an implication contrary to fact. As at present constituted, our banks have operated proficiently and to the Nation's advantage over periods of years in the past; their growth is evidence of usefulness and adaptability; today they possess greater potential ability than ever before to contribute to national wealth and economic security.

It must be conceded, however, that there exists today unwillingness on the part of banks to lend money on such terms as are required by prospective borrowers, also unwillingness on the part of such borrowers to seek money from banks on terms offered by banks. Moreover, this condition exists in the face of a broad demand for credit as evidenced by the tremendous growth in number and scope of commercial credit enterprises which exact high if not ruinous rates of interest.

It is my contention that this "unwillingness" on the part of banks and business is caused by apprehension and distrust, not of each other but of possible future constraints and contingencies over which they have no control and against which they have no present protective means. The nature of these constraints and contingencies are itemized on page 4 hereof.

The purpose of this memorandum is to suggest a method whereby the Administration may offset such constraints and contingencies, thus eliminating the basic reasons for apprehension and distrust and accomplishing its objective of increasing outstanding bank credit. The proposed method does not require new legislation, a change in the banking system, large expenditures for personnel or the undertaking of contingent liabilities on the part of the Federal Government.

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In the method outlined below there is involved, as you will immediately recognize, nothing more than a variation in the method of operating a facility which is now available. The relative effectiveness of the two methods of operation, however, may be compared only in the sense that a fire bucket on a shelf compares with a modern automatic sprinkler system installation.

PROPOSED METHOD:

Any solvent bank may list its loans, as they are made, with the RFC, depositing with each listing approximately one-quarter of one percent. (computed on an annual basis) of the face amount of each loan into a general fund (hereinafter described). RFC thereupon will be obligated to purchase, immediately on any future call, the preferred stock of such bank up to the amount of the listed loans outstanding at the time of such call.

That is about all there is to the procedure. RFC assumes neither supervision nor risk with respect to the listed loan. For its part, the bank agrees that it will maintain a sensible ratio of junior capital to loans and that it will not pay dividends on its junior stock so long as such preferred stock remains outstanding as a senior capital obligation. The "general fund" is not for insurance of loans; it remains an asset of the banks but is subject to draft by the RFC for any loss

incurred in the event a bank becomes insolvent and its assets are insufficient to redeem its outstanding preferred stock.

I have been informed that it is possible to put this plan into effect under existing laws.

* * * * *

This proposal seeks to attain the objective of encouraging increased bank credits through

- (1) The elimination of apprehension by enabling banks to face, with equanimity,
 - (a) any future disapproval by bank examiners of loans made in good faith;
 - (b) the possibility of extraordinary withdrawals of deposits, particularly by large depositors. (One-half of all deposits are controlled by less than $\frac{1}{2}$ of 1% of all accounts.)

- (2) The restoration of confidence to banks and business by assuring
 - (a) an opportunity for orderly liquidation of a loan in the event of
 - 1 - an adverse ruling by examiners;
 - 2 - any other contingency with respect to an individual loan or the position of the bank itself.

 - (b) a means for avoiding, through measured inflation, the vicious circle of declining deposits and compulsory liquidation which, although usually generated by limited or localized financial stringency, destroys price levels and values, thereby unleashing genuine panic.

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- (3) Establishing (through assurances of liquidity) a basis upon which banks may invest in intermediate- and long-term amortized loans, thus accommodating themselves to what may be termed "the change in the borrowing method of business."

(It would appear from available statistics (see table) that the attitude of banks and the experiences of 1931-33 have combined to impel many business men to create their own individual reservoirs of liquid capital for current operating purposes. This capital, idle for much of the year, has been accumulated at the expense of plant and equipment and other forms of durable goods. Many economists assert that it is the lag in durable goods production which is responsible for unemployment and lowered earnings.

Consideration must therefore be given to those potential seekers of credit who, while they deem it wise to protect their present cash position for current purposes, will, nonetheless, gladly undertake the borrowing of money for capital goods purposes, provided the term of the loan is consistent with the use to which they intend to put the money.

CONCLUSION:

I offer this proposal because I believe

- A - Lack of adequate bank credit has been a dominant factor in our inability to achieve stable and continuous prosperity;
- B - We cannot hope to replace by governmental lending agencies the services of 18,660 banking units which, aside from numerical superiority, are in a position, through day-by-day contact, to furnish almost instantaneous credit facilities, an essential element which is lacking with respect to Federal lending operations.

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C - It is the duty of Government, having in mind the welfare as well as the money clauses of the Constitution, to afford a modus operandi which will enable our banks to perform their functions. It is true that we must consider fiduciary responsibility; at the same time it should be recognized that over-protection can destroy utility.

* * * * *

I attach hereto a tabulation of comparative statistics, a copy of a letter from Howard Cullman to Jesse Jones and a summary of provisions of listing agreement, all of which are self-explanatory.

Respectfully submitted,

Henry M. Kannee.

December 18, 1939.

COMPARATIVE STATISTICS

	1929	1938
	Billions	of \$
Banks:		
Deposits	57	59
Cash and government bonds	18	27
Short-term loans	19.4	8.6
Collateral loans	11.2	3.8
Long-term property loans	10.4	8.7
Percentage, loans to deposits . .	72%	36%
Corporations:		
Cash and tax exempt bonds	33	50
Other investments	55	85
Plant and equipment	116	98
Average increase in plant and equipment during 1920 decade, annually		4 billion \$
Average decrease in value of plant and equipment during years 1931-6 -- annually		3½ "
Net decrease, depression years over prosperity years		7½ "
Life Insurance Companies:		
Total assets	17.4	27.7
Cash and government bonds	6	15
Mortgages	7.3	5.4
Percentage, mortgages to total assets	42%	19%
Building and Loan Associations:		
Mortgage loans	7.8	3.7
Percentage, mortgage loans to total assets	89%	66%
Distribution of Bank Deposits:		
On Sept. 21, 1938, 13,705 insured commercial banks reported:		16.7 billion \$
60,398,738 accounts controlled		3.7 "
564,705 " "		27.6 "
428,459 " "		" "
Physical Assets in U.S. (Notre Dame Report)		
1929	413	"
1933	344	"

PROVISIONS OF LISTING AGREEMENT

1. Bank may apply to RFC for the privilege of listing a commercial or property loan which it contemplates making.
2. RFC, immediately upon receipt of such application, must signify approval of such listing. RFC may withhold such approval if condition of bank is deemed unsound.
3. If and when the loan is consummated, bank shall pay to RFC one-quarter of one percent., computed on an annual basis, of the face amount of the loan. This amount shall remain a contingent asset of the bank but may be drawn on by RFC, on a proportional basis, to liquidate any losses incurred by reason of the failure of any bank to redeem its preferred stock which may be issued under this agreement.
4. Upon receipt of such payment, RFC will list the loan.
5. Following such listing and so long as the loan or any part thereof remains outstanding, RFC shall be obligated, upon call by the bank at any future time, to purchase the preferred stock of the bank up to the amount of the unliquidated portion of such loan.

(The interest rate on such preferred stock shall be fixed by the listing agreement. It may be found advisable to set the rate of interest at a figure consistent with the rate charged the borrower.)

..2..

6. The bank, on its part, agrees:

- (a) That it will not create new capital issues senior to such preferred stock;
- (b) That it will not pay dividends on nor liquidate its capital junior to such preferred stock so long as such preferred stock remains outstanding, nor may it do so in anticipation of selling such preferred stock. It shall be deemed "anticipation" if, under ordinary banking practice, the condition of the bank is unsound at the time of any such payment or liquidation.
- (c) That its officers and directors do not have any direct or indirect financial interest in the borrower.
- (d) That it will not permit the ratio of actual equity capital to loans to go below a level fixed by the listing agreement.
- (e) That any preferred stock which may be issued will be redeemed by the bank at par plus accrued interest when and as loans are repaid by borrowers, otherwise to remain an outstanding obligation of the bank until redeemed.

* * *

C O P Y

November 22, 1939

Hon. Jesse H. Jones,
Reconstruction Finance Corporation,
Washington, D. C.

My dear Jesse:

I listened with great interest and have read the address of Emil Schram regarding the banks and trust companies' unwillingness to make long-term loans to small corporations or individuals at fair rates of interest. I do not think the record of most banks or trust companies will justify any such appraisal of their policy, particularly insofar as institutions operating in the larger centers are concerned.

Among other things, Mr. Schram advised "It is not easy to understand why a properly amortized long-term loan should not be acceptable to banks." As a director of two institutions, I am completely familiar with the policies of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the State banking authorities in criticizing and classifying loans. Any loan which has been on the books for any period of time is looked upon with suspicion and may be classified as slow or doubtful and generally undesirable. The average individual serves as a trustee of a bank today under most difficult circumstances. He is most anxious to cooperate with the appropriate authorities, be it the Federal Reserve or the State Banking Department, and their suggestions and criticisms of the bank's operation. These suggestions and criticisms cannot be ignored for obvious reasons. So long as the accredited agencies of the federal and state governments suggest such loans be discouraged, it ought to be easy for Mr. Schram to understand why banks hesitate to make same.

May I again respectfully urge that it might be advisable for a meeting of the Reconstruction Finance Corporation, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the respective state banking departments to adopt some uniform policy. I would suggest particularly that no loan should be criticized because of its term if it is being reasonably amortized. We are interested in having our money work for legitimate loans and are anxious to cooperate with any federal agency, but we hesitate to take a position urged by the Reconstruction Finance Corporation if on the other hand such action is discouraged by the Federal Reserve as well as by the state banking departments.

It is all a very perplexing problem. In the final analysis what we are all anxious to do is to make good loans, be it to big or little business or individuals, and in making these loans not subject ourselves to proper or improper criticism. The present set up - quite frankly - just doesn't make sense to me.

My best wishes to you.

Cordially,

Howard S. Collman.

FEB 6 1940

Dear Mr. Hobbs:

Thank you very much for your letters of January 23 and January 25, 1940, concerning re-exports of rubber and tin.

An examination of the data you included in your letters, together with other information available, indicates clearly that recent re-exports of tin and rubber have not been large enough to have had a significant effect on the position of these materials in our economy. The volume of re-exports in 1939 was less than 3 percent of our imports of these materials. Further, increased imports of tin and rubber in the final months of 1939 were adequate to take care of both the increased domestic consumption and the increased re-export demand, as well as to increase somewhat the domestic stocks. In 1939 our re-exports of tin increased 1,800 tons compared with the previous year but our imports increased 20,000 tons. Our re-exports of rubber rose 7,500 tons from 1938 to 1939 but our imports rose 85,000 tons.

At the end of last year we had 4 1/2 months' supply of tin at the 1939 rate of domestic consumption and almost 5 months' supply of rubber, including stocks in the United States and the unusually large supplies which are often detained for the United States. In addition, the Anglo-American cotton-rubber barter arrangement will soon bring nearly 2 months' supply of rubber to the United States which will be acquired by the Government for national defense stocks.

I am of the opinion that the factors influencing the domestic stocks of tin and rubber are not decisively related to our re-exports of these commodities. Were re-exports to be stopped altogether, with the loss to this country of its valuable position as a trading intermediary in these commodities, there would still be no assurance that domestic stocks would increase. If it is desirable from the point of view of national defense to increase our stocks of these strategic materials, it would seem to me that the proper method to be used to achieve that purpose would be to induce the members of the domestic industry

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to increase imports for the purpose of adding to their stocks, or for the Federal Government to obtain adequate funds with which to purchase stocks of these materials to be held by the Government and specifically designated for purposes of national defense.

Sincerely,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

Honorable Edward J. Noble,

Under Secretary of Commerce.

Enclosure ✓

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger 2/6/40 at 11⁰⁰ am

File to Mr. Thompson

FTO:MS:cech
1-31-40

Rubber

Re-exports of rubber in 1939 totaled 13,102 long tons, equal to 2.5 percent of total imports of 497,212 long tons in that year, and to 2 percent of 1939 domestic consumption. Re-exports were only 5.5 percent of domestic stocks and stocks afloat on December 31, 1939, which totaled about 235,000 long tons. Before war began, re-exports went largely to Western hemisphere nations, but a small wartime demand arose from several European neutrals. One large shipment of about 5,000 tons went to U.S.S.R. in October.

Stocks of rubber on hand in the United States at the end of 1939, 138,000 long tons, were practically three months' supply on the basis of 1939 domestic consumption, in spite of the fact that they had fallen to the lowest absolute figure since the depression began. However, in November shipments of rubber destined for the United States rose to the highest monthly level since 1928, 114,000 long tons, and the stocks afloat in October and December were also large, being nearly double the monthly average for the first half of last year. At the end of 1939 stocks on hand in the United States plus stocks afloat were equal to almost five months' supply, on the basis of 1939 consumption. They were only 15 percent less than at the end of 1938 when stocks on hand and afloat had been 277,000 long tons. Stocks and supplies afloat were actually higher at the end of December 1939 than they had been at the end of August before the outbreak of war; yet the wartime re-exports in September, October, November and December accounted for three-quarters of the total re-exports in 1939.

Total permissible export quotas under the international rubber production restriction agreement have been increased from 50 percent in the first half of 1939 and 60 percent in the third quarter of 1939 to 75 percent in the fourth quarter of 1939 and to 80 percent in the first quarter of 1940. The effect of these larger quotas is just beginning to become apparent in the domestic rubber situation. The relatively low stocks on hand in the United States at the end of 1939 were occasioned primarily by a sudden increase in the domestic rate of consumption after the outbreak of war and by temporary shipping difficulties during the first weeks of war, plus the fact that a few months are required before a large increase in the permissible export quota is reflected in larger imports into the United States. December imports of rubber for consumption rose to about 70,000 long tons, practically as high as the highest month's imports ever recorded.

A part of the increase in permissible export quotas in the final quarter of 1939 was intended to provide rubber which the British Government could ship to the United States Government as its part of the rubber-cotton barter agreement signed last July. Very little was actually received by

the United States however, and it was recently announced that all such shipments would be postponed for a month or two. Thus the major portion of the larger export quotas have, and it will continue so for some time, entered directly into commercial channels. However, now that war has begun the United States Government has, in effect, acquired 80,000 long tons of rubber for its national defense stocks -- even though it has not yet been shipped. This amount added to existing stocks in the United States and supplies afloat raises the total to nearly 7 months' supply at 1939 rate of consumption.

Tin

Re-exports of tin in 1939 totaled 1,556 long tons, equal to only 3 percent of either total imports or total domestic consumption of about 71,000 tons in that year. Tin re-exports in 1937 were only 12.5 percent of visible year end domestic stocks including stocks afloat, totalling about 16,000 long tons. (About another 10,000 tons was in the hands of domestic consumers.)

In the first eight months of 1939 re-exports, primarily to Western hemisphere nations, totaled only about 176 long tons. In the last four months, after the outbreak of war, 1,620 long tons were re-exported or more than 90 percent of the year's re-exports. 1,228 tons of this was re-exported in the month of December when 852 tons was taken by Russia; in the four months after the outbreak of war unusually large shipments totaling more than 500 tons went to Sweden and smaller quantities were taken by Norway, Denmark, Lithuania, Finland and Egypt, in addition to the usual shipments to Western hemisphere nations.

Visible stocks of tin at the end of 1939 (including tin afloat, at landings and in licensed warehouses) totaled about 16,000 long tons, amounting to 2.7 months' supply at the 1939 rate of consumption. If estimated stocks in the hands of domestic consumers are included, year-end stocks were 4.4 months' supply, very nearly the same as at the end of 1936 and 1937 and only 4 percent below total stocks at the end of 1938.

Stocks of tin afloat declined for the United States rose sharply after the outbreak of war and in October were almost three times the highest monthly importation in the eight pre-war months, and nearly 30 percent of 1939 consumption. United States imports for consumption likewise rose sharply in the last months of 1939 until, in December, they were more than double the highest month's imports during the first ten months of 1939 and were at one of the highest totals ever recorded in any month, 12,500 tons.

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Total permissible export quotas under the international tin control scheme had been reduced to 35 percent of basic tonnages during the last half of 1939 and the first quarter of 1940. In the second quarter of 1939 they were only 40 percent. In the last half of 1939 and for the first quarter of 1940, however, permissible export quotas were at 120 percent of basic tonnages. Simultaneous with a sharp increase in domestic consumption of tin, the effects of the greatly increased export quotas began to be seen in the increased shipments in October, November and December, as well as in the greatly increased imports in November and December.

LEB 4 - 1870

FT:resh
1/31/40

RE INDIANA CASES

February 6, 1940.
10:30 a.m.

Present: Mr. Gaston
Mr. Foley
Mr. Helvering
Mr. Graves
Mr. Ireys
Mr. Sullivan
Mr. Leming

H.M.Jr: Well, Guy, do you want to tell me where we are, after all this time, with the State of Indiana and where we go from here?

Helvering: Well, Mr. Secretary, I am convinced in my own mind that the method that we have been using in conducting the investigation out there isn't producing the results that I had hoped for. In fact, it has resulted in us having two investigating units out there and I think there should be but one, and therefore, if you have no objection, I was going to ask that the Chief Counsel's office recall the attorneys that have been out there investigating and turn the matter over to the regular investigating unit of the Treasury Department to proceed to get the factual information in this case.

H.M.Jr: This is a perfectly good arena. I am willing to umpire. We were going to go ahead. I saw these people between Christmas and New Years. We were going to take - I can't remember the man's name - into court.

Foley: Elder.

H.M.Jr: Yes, and the General Counsel's office asked me not to do it, recommended against it, and as I remember they said that they wanted until the 29th of January to go after this Kentucky Rock Asphalt. They figured that by that time they would have something on the slush fund. It is now the 6th of February and have we gotten anywhere?

Helvering: We had a conference on the 17th which was attended by Mr. Foley and Mr. Graves and Mr. Ireys and Mr. Wenchel and myself and Mr. Sullivan, at which we thought at that

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time that ten days would be sufficient time, but it developed on account of the question that it did take a little longer than that and I thought possibly they ought to finish that part of it, inasmuch as they started it.

I think, Mr. Secretary, the way this program went it was sort of a checkmate on getting the factual information we ought to have in order to proceed with this case and I think it ought to be coordinated under one investigating unit, the authorized investigating unit of the Bureau.

- H.M.Jr: All right. Well now, Ed, why should we have the lawyers being detectives?
- Foley: Mr. Secretary, it is all right with me. I will bring them back. I didn't ask to send them out there. I was asked to send the two best men I had.
- H.M.Jr: Now wait a minute, I have been trying to think and you people can check me. The reason I sent the lawyers out - and anybody can contradict it if it isn't so - I handled a lot of stuff - was in order to help Ireys's people draw the papers so if they went into court the papers would be properly drawn. That was my impression.
- Foley: That is right.
- Ireys: That is right.
- H.M.Jr: They are going into court and I said this is a question of preparing the papers before a judge, and so forth and so on, and I want those papers prepared properly and sent a lawyer out to make sure. Is that right?
- Ireys: That was in connection with Bowman Elder's testimony.
- H.M.Jr: And as far as I know, I don't think I went any further. That was why I sent the lawyers out. Is that right, Ed?

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Foley:

That is right, yes. That was done and the material was sent in here, laying the foundation for the order and I brought it up at the 9:30 meeting and you said that you didn't want to get in on it and for Mr. Sullivan and I to handle it, and we decided, Sullivan and I, that this was not the time to go into court and ask for the order, that there ought to be a good deal more investigating done, there ought to be a look at the books of the Kentucky Rock Asphalt and the Ohio Valley Asphalt Companies, and we ought to proceed to develop a background there, so that we would know after we got our order to compel Bowman Elder to answer questions, what to ask him and what had actually gone into his hands and when he was being truthful and when he was not being truthful and all of that. Now, that was done.

We now have established that about \$250,000 in taxes - in unreported income is owed by a fellow by the name of Keeler, who is agent for the two companies, and we also think that we have an income tax case against a fellow by the name of Pursley, who is the undisclosed representative for Governor Townsend. Now, we have a similar situation in Kentucky now involving the treasurer of the Kentucky Rock Asphalt Company, a fellow by the name of Hermes. We have laid the foundation in order to compel him to produce the books of the company, the minute books, showing the arrangements that were entered into with Keeler and the disposition - possible disposition of these payments that were made by the company to Keeler. Hermes has refused to produce those and we are faced with the same situation in Kentucky that we are in Indianapolis. I don't think that there are two investigations going on. I thought that our men and Mr. Irey's men were working along fairly well. It seems that every time on these cases, with lawyers and investigators working together, we get the same attitude from the Division of Investigation. We had it in Chicago. Elmer told me that it would not happen here, but apparently it has

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and if that isn't conducive to a good investigation and the Commissioner feels that it would be better for the lawyers to come home, I am perfectly agreeable to have them come home. It is all right with me.

H.M.Jr: Have you got any ideas, Herbert?

Gaston: No, I think not.

H.M.Jr: Do you want to express an opinion?

Gaston: Well, it seemed to me, as I have heard the story indirectly, that the situation out there was more than just the lawyers assisting the investigators. I have understood that the lawyers were actually directing the investigation and I should suppose that you would want to advance an investigation further. The usual custom is, before the lawyers actually take charge of an investigation, to wait until the Intelligence Unit's investigation is completed, and that doesn't seem to be the case here.

H.M.Jr: Are you familiar with this, John?

Sullivan: Yes, sir, I am.

H.M.Jr: What is your idea?

Sullivan: I think the material that was developed in Kentucky is extremely valuable and whether or not the General Counsel's office or the Chief Counsel's office withdraws, I think that should be continued by other men as well as whatever is done in Indiana and I think that what is disclosed down there will prove to be very helpful in the investigation in Indiana.

H.M.Jr: Well now, are the lawyers exclusively in the Kentucky picture?

Foley: No, they are investigators with you, aren't they, Ben, down in Louisville?

Leming: Mr. Sullivan asked Mr. Fowlkes to aid and assist there and there were two revenue agents who

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went over from Indianapolis and preceding that there were four revenue agents assigned to make some individual investigations to get background on some of the witnesses who were to be interviewed.

H.M.Jr: Well, is this investigating work that you are doing?

Leming: Well, Mr. Secretary, I should say it would be. I don't know of anything that has transpired out there that isn't of that nature. Now, so far as my participation is concerned, it has been - whatever it has been is with a view to advancing the common objective and purposes of the inquiries, so far as I was advised of their standing.

H.M.Jr: Well, let me - did I interrupt you?

Leming: That is all right.

H.M.Jr: Are you through?

Leming: Yes.

H.M.Jr: Harold, do you have any ideas?

Graves: I agree with what Mr. Gaston says, that until the completion of the normal investigating phases, it is the Commissioner's responsibility to carry on the inquiry. I think we are going to be in a very chaotic and confused situation out there until we recognize that.

H.M.Jr: Let me ask the Commissioner a question. I get the impression - right or wrong - that this Kentucky Rock Asphalt thing under Mr. Leming is sort of off by itself. What do you think if we tell you to complete that, just confining himself to the Kentucky end of it, and let Irey go ahead with anything in the State of Indiana, I mean so that we don't lose the benefit of Leming's work.

Helvering: I understood that was practically completed.

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- H.M.Jr: What would you think of that?
- Foley: Partially, Mr. Secretary. I don't say that one isn't related to the other. The only purpose of going down into Kentucky was to develop payments into the slush fund.
- H.M.Jr: But how soon will he complete - this thing has been going on for weeks. God damn it, I brought these people in here between Christmas and New Years and I wanted results and here it is six weeks past and we haven't got a thing.
- Foley: We have, Mr. Secretary. We developed a tax case against Keeler since we went down in Kentucky and we didn't have anything.
- H.M.Jr: Who is Keeler?
- Foley: Keeler is the agent. He owes us approximately \$250,000 in taxes.
- H.M.Jr: But who is Keeler?
- Foley: Keeler is the agent for Kentucky and Ohio Valley Rock Asphalt Companies.
- H.M.Jr: But that has got nothing to do with this.
- Sullivan: But the reason why we want the books of that company is, then we will have an idea what was paid into the McNutt organization for Elmer's use.
- H.M.Jr: Why can't you get those books?
- Foley: We have got to get an order.
- H.M.Jr: Then you are right back where he was. He wanted to get Elder in so he could look at their books. Maybe he would have got the order the other way around.
- Foley: No, I think you have to develop the background in order to go in.

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- H.M.Jr: How much longer will it take Leming to finish this job down in Kentucky? That is what I want to know. They said the 29th and here it is the 6th of February.
- Foley: You are ready to send out the letter now on Keeler, aren't you?
- Helvering: I want to interject there that I would absolutely object to the letter sent out to Keeler because it isn't on the right basis.
- H.M.Jr: We can't do this thing - I mean, I can't go into this thing - there is no reflection on you (Leming) whatsoever, one way or the other, but I mean, Helvering is responsible and no one is going to argue about that, for the development, or rather the disclosure, of people who defraud the Government. There is no argument about that, is there?
- Sullivan: Not the slightest.
- H.M.Jr: Now, Mr. Helvering comes in here and says he wants full charge of this case, is that right?
- Helvering: That is the idea, exactly.
- H.M.Jr: Even if I may be stepping on somebody's toes, everybody has got to be a good sport. There is only one answer and if Helvering wants it, he has got to have it. There is no other answer.
- Sullivan: O. K.
- H.M.Jr: There can't be any other answer, any more than if Gaston comes in and says to me or if you (Foley) come in and say to me, "There are some Secret Service men trying some case in New York. That is my responsibility, to try cases, and I am not going to have Secret Service men trying cases before the court, even though they are - have hassed the bar examination. That is my responsibility. It is all right for them to develop a case, but when it comes

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to presenting it to court, that is my job."

Foley: It is all right with me, Mr. Secretary. I didn't ask to send these fellows out and if you think you are stepping on my toes by saying we ought to turn this back to Elmer, that is perfectly all right with me.

H.M.Jr: Then everybody is happy?

Helvering: What I distinctly understood - I recognize Mr. Leming's ability. In fact, I think he is one of the best men in the Bureau, and all that, but what I would like to do, I would like to chop this thing right off now and have Mr. Foley's office bring those men in and what information they have, turn it over to Mr. Sullivan to develop these factual questions.

H.M.Jr: I want to say this, Ed has told me two or three times in having Leming out there he has let go one of his best men on this work and he would love to have Leming back, so everybody is in agreement and the only way I can run this shop with 73,000 employees is to give the heads responsibility and the purpose is - now, you want it, it is yours. Go ahead, I will hold you personally responsible for the development of the case. You have asked for it, I give it to you.

Helvering: Well, I want to get at the facts. If there is a case there, I want to be certain, and if there isn't a case there, I want to discontinue it.

H.M.Jr: And I am sure everybody in this room will give you everything that you want. Now, you go to it.

Helvering: All right, Mr. Secretary. I was just saying to Ed --

H.M.Jr: Oh no, we haven't worked six or seven years together - I mean, we can have a meeting in this office without having any bad blood.

- 9 -

- Irey: Mr. Secretary, I would like to clear up one thing. Ed's suggestion is that I am lacking in cooperation. I have never been charged with that before. I have tried to cooperate with the lawyers and everybody else to the fullest extent and I hope that Ed doesn't really feel that way. When a case is referred to the attorneys for prosecution, we work with them just a hundred percent in developing further evidence they may want, but this is the first case we have ever had where in a preliminary investigation before it is referred to the lawyers we haven't had full control of the investigation.
- Helvering: That is what I want to give you.
- Irey: I hope that it isn't a general feeling that there is any such spirit on my part, that is what I am getting at.
- Foley: Well, it is the second time that the lawyers and investigators haven't agreed. It is all right with me. I have tried to cooperate and if it isn't right, it is all right with me to bring the lawyers back. We have got more work here than we can do with the people we have. I am sure Ben would love to come back.
- Irey: You always jump to the conclusion that if they don't agree, it is entirely the responsibility of one or the other side. There may be fault on both sides, that is what I am getting at.
- H.M.Jr: We have got to have peace and harmony here. We have got to have responsibility. Mr. Foley has got full responsibility for the General Counsel's office, et cetera, et cetera. Mr. Helvering wants this and he wants to detail it to whoever he feels should carry it out. It is his responsibility and I can't - we can have a meeting like this and we can still be friends, right?
- Foley: Right.
- Sullivan: I don't know why not.

Mr. Chauncey

Mr. Graves handed

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this to the secretary yesterday, Feb. 6.

M.P.A.

2/7/40

From: MR. GRAVES

PORTLAND CEMENT PRICESPURCHASES BY STATE PROCUREMENT OFFICERSJanuary-September 1939

State	Range of prices paid per barrel *			
	F.O.B. Destination		F.O.B. Mill	
	High	Low	High	Low
Alabama	2.60	1.4609	1.83474	1.38
Arizona			1.50	.93
Arkansas	3.22	1.81255		
California	2.623018	1.695	1.80	1.25
Colorado	4.20	2.28		
Delaware	No quantity over 100 bbls.			
Florida	2.87	2.05		
Georgia	2.744	2.17		
Idaho	3.60	2.62	2.74	2.72
Illinois	2.88	1.99		
Indiana	2.94	2.00		
Iowa	2.89	2.11		
Kansas	2.89	2.10		
Kentucky	2.7225	1.85		
Louisiana	2.92	1.935		
Maine	2.65	2.58		
Maryland	2.30	1.94		
Massachusetts	2.65	2.36		
Michigan	2.32	1.69		
Minnesota	3.10	2.23		
Mississippi	2.80	2.18	1.6806416	1.447612
Missouri	2.80	2.092		
Montana	4.00	2.65	2.65	2.556
Nebraska	3.52	2.39		
Nevada	3.47	3.00		
New Hampshire	2.67	2.24		
New Jersey	2.6666	2.02		
New Mexico	3.90	2.56		
New York	2.87	1.58		

* Exclusive of quantities less than 100 bbls.

- 2 -

State	Range of prices paid per barrel			
	F.O.B. Destination		F.O.B. Mill	
	High	Low	High	Low
North Carolina	2.91	1.985		
North Dakota	3.68	2.60		
Ohio	2.37	1.85		
Oklahoma	2.94	2.22		
Oregon	3.25	2.30		
Pennsylvania	2.69	1.87		
Rhode Island	2.65	2.56		
South Carolina	2.80	2.14		
South Dakota	3.04	2.44		
Tennessee	3.00	2.08		
Texas	3.50	1.903		
Utah	3.40	2.70		
Vermont	2.80	2.44		
Virginia	2.52	1.91		
Washington	3.19	1.98	2.80	1.47
West Virginia	2.60	1.95		
Wisconsin	3.00	2.05		
Wyoming	4.30	2.76		

- 2 -

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Utah	3.40	2.70		
Vermont	2.80	2.44		
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2/27/40

2/5/40

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You will note from
the attached report
although the prices
vary considerably as
between States & there
is a comparative basis
with: average for sample
Illinois, Indiana -
Iowa, Kansas -
New England States -
the Rocky Mtn. States etc.

my

PORTLAND CEMENT PRICESPURCHASES BY STATE PROCUREMENT OFFICERSJanuary-September 1979

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* Exclusive of quantities less than 100 bbls.

- 2 -

Range of prices paid per barrel

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Kerry
February 6, 1940

My dear Mr. President:

I have just returned from a most interesting trip and am sending you reports from the newspapers which you may not have seen.

I am hoping to leave late Thursday afternoon for a week's vacation in Arizona. If convenient, I would appreciate an invitation to have lunch with you on Thursday.

Yours sincerely,

The President,
The White House.

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The President,
The White House.

To be filed — 287
COPY FOR SECRETARY
with a smile!
H.M.S.



DEPARTMENT OF STATE
WASHINGTON

February 6, 1940

My dear Mr. Secretary:

I wish to acknowledge your letter of January 20, 1940 written to confirm the decision of the Treasury to abstain from participation in the present deliberations and negotiations having to do with the Brazilian debt. I realize the circumstances that have prompted this decision.

Though I think probably members of your Department understand the circumstances which have controlled our decisions, it might be well to review them for your information. Current discussions which are taking place in Rio de Janeiro arose out of the fact that our Ambassador in Rio de Janeiro reported to us that the Brazilian Government independently and on its own responsibility had reached a decision to make some kind of an offer to the holders of its external bonds now in complete default; it further reported that this action had been preceded by discussions with representatives of the European bondholders.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

bondholders. The information which he sent to us regarding the character of the plans under consideration by the Brazilian Government was such as to lead us to believe that a real danger existed that events in this matter might develop into a very unsatisfactory outcome to the American bondholders. In the face of that possibility it was essential that the Ambassador informally advise the Brazilian authorities of our thoughts in the situation, while carefully avoiding any responsibility of action that the Brazilian Government might take more or less irrespective of our views. The situation seemed to make it a matter of imperative duty that we do what we could, within the limits of our established policy, to try to serve the American interests involved.

The subsequent instructions to the Ambassador were entirely dictated by this same purpose, and the time limits within which they had to be despatched and the manner in which they were handled was dictated entirely by the circumstances with which the Ambassador had to deal. In the first case we were required to get instruction to the Ambassador by noon on the basis of information received from him only at nine o'clock the same morning, and needed by him before a meeting of the Brazilian Cabinet in the early afternoon of the same day. In the second

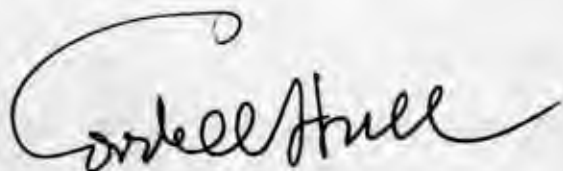
instance

- 3 -

instance we were required to get the guiding instruction back to him in a similarly short period, so that he could take advantage of an opportunity afforded him by the Minister of Finance to present observations before the Minister of Finance met with the creditors' representatives. These circumstances determined the timetable.

I understand too that my colleagues have been mindful of the obligations to the Foreign Bondholders Protective Council, and every care has been taken to in no way commit that organization, or anyone else, to the decisions the Brazilian Government might make. But the manner in which the situation has shaped itself up has made it impossible to exchange views with them. We have not, I repeat, undertaken to negotiate with the Brazilian Government. We have been faced by the fact, as reported by our representative, that it was very likely that the Brazilian Government would, on its own responsibility, undertake to make an offer to the bondholders and have tried to do the best we can to assure that if the Brazilian Government should do so, it would be as satisfactory an offer as they could be prevailed upon to make.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name "Cordell Hull".

February 6, 1940.

My dear Mr. Under Secretary:

I was very much pleased to have your letter of February 5th, which informed me that you had been advised by the Ambassador of Colombia that his Government has officially accepted the temporary arrangement suggested at the conference in my office the first of the month. This is indeed good news, and I want to thank you most cordially for your cooperation in the matter.

It has been a pleasure to meet with you and Mr. Jones, and with the representatives of the Government of Colombia, and I am sure we are all glad the matter has progressed so satisfactorily thus far.

Sincerely,

(Signed) H. Morgenthau, Jr.

By Messenger 9⁴⁵ am 2/8/40

Honorable Sumner Welles,
The Under Secretary of State,
Washington, D. C.

GHW/dbs

February 6, 1940.

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Honorable Sumner Welles,
The Under Secretary of State,
Washington, D. C.

OMF/dbs

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Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
The Under Secretary of State,
Washington, D. C.

GWT/dbs

THE UNDER SECRETARY OF STATE
WASHINGTON

February 5, 1940.

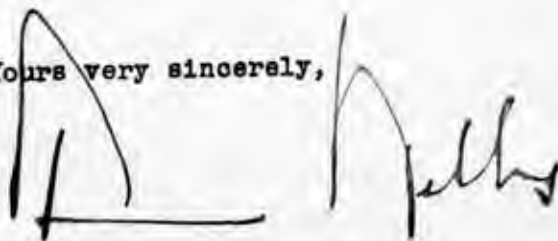
My dear Mr. Secretary:

With reference to the conference which was held in your office on February first and which was attended by representatives of the Government of Colombia and of the Foreign Bondholders Protective Council, as well as by Mr. Jesse Jones and myself, I am glad to inform you that the Ambassador of Colombia has today advised me that the Government of Colombia has officially accepted the temporary arrangement suggested at that conference together with all of the conditions attached thereto.

I am sure you will be as greatly pleased as I am that the efforts of the "Committee of Three" have in this sense so far proved successful.

Believe me

Yours very sincerely,



The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 8, 1940

3:30 pm

Present:

Mr. Gifford
Mr. Pinsent
Mr. D. W. Bell
Mr. Cochran
Mrs. Klotz

Mr. Gifford: Well, I suppose you want me just to plunge into the matter of my meeting.

HM, Jr: If you would.

Mr. Gifford. Yes. I would like to remind you, in order to make it fair, that this time as compared with 1914-1918 our holding of bonds of American countries is quite small, really not very important. There may be opportunity for negotiating with the companies that issued them and we have very much in mind to do that where cases of that are practical, but that is not the real problem you have asked me to consider.

Then, as regards our large holdings, we have only two holdings that could be described as really very large, that is, of the nature of \$20,000,000 in the two of the, well, well-known big American corporations.

In one of these we have reason to think that an approach to the company might be successful, in whole or in part, and that we certainly will, at the moment, try to deal with them by that method, if possible.

In the case of the other company, I have been given to understand by my advisers in New York that approach there would be unlikely to be successful. But it is not proposed to vest these shares in the meantime and even if we did, in view of the number, what's in my mind it would take 12 or 15 months to liquidate the holdings.

-2-

Now then, coming down to the general consideration of the question whether we can realize our securities to some considerable degree -- our shares, quoting shares -- by approach to the companies of issue, I felt that that had to be gone into on some scale to be of any real use, because of course, no doubt, there will arise individual cases where it could be done, but if it were to be a substitute for vesting and sale in the ordinary manner, one would find that it would be applicable to a fairly large scale. In order to test that up, I would like to let you know exactly what I did, if you will bear with me.

HM, Jr: Please.

Mr. Gifford: I want to put the cards on the table.

First of all, in order to make myself acquainted with the legal background so that I should understand the position, I consulted the solicitors whom the Treasury had authorized me to and put the matter before them.

HM, Jr: Who are they?

Mr. Gifford: Davis, Polk, Wardwell, Gardiner and Reed. I will go back to that if I may.

Then, in order to apply the more practical test, I did this. You probably remember that it had been intended in December to vest 60 securities, which Mr. Whigham and I had selected on the voyage out and the selection had been approved when we arrived here. What I did was take that list of 60 securities and out of that to take the companies in which the British holding amounts to 3 million dollars, or more, and these, when I picked them out, amounted in number to 14, and as it happened, they give a wonderfully good representation of the varied interests of American industry. Then I made an examination, with the assistance of my friends in New York, into the balance sheet position, question of all the issues of securities they had made recently, and in general their working capital situation. The result of that I would like to give you in detail because it forms a considerable basis of the conclusion that we have felt it would force upon us.

-3-

Of these companies, four during 1939 had raised additional working capital and that was not just to provide fixed capital; it was to increase the working capital. I make that point. Three others within the last four years had raised additional working capital by the issue of either preferred or other stock and the inference that I drew myself of what that was worth and what my advisers very strongly said to me was that it was extremely unlikely that having increased their prior charges for the purpose of strengthening their working capital position, they would be willing to deplete their capital in order to buy in their common stock.

In the case of the other two companies, we found they had large construction programs in hand and one, as a matter of fact, had rather definite restrictions against the purchase of its own common stock, making it difficult and unlikely. The other has large shares of early maturities in the early 40's and that again had the obvious result of making us feel that an approach there was extremely unlikely to be successful.

Then with regard to the remaining five companies, one had to borrow on severe terms in 1935 - had gotten into financial difficulties - and my advisers know quite accurately what they would have to do; namely, get his bonds reduced and common stocks reduced and not be caught that way again, and it was quite clear that approach there would not be successful. Then the other two companies, one is heavily bonded already and has heavy maturities and though its cash position is fairly strong it is not strong enough to encourage the hope that we could proceed along those lines. Then the third has very heavy borrowings from its bankers and that again did not look at all promising.

That accounts for fourteen and left twelve out of the fourteen looking rather inconclusive. Since we examined that, the annual report of one of them has come out -- was handed to me just yesterday morning -- and we see from that that it is entering upon a very large development program running up to about 24 million dollars in the next two years. The result was that, so far as my own opinion was concerned, I was forced to the view that the chance of the Board's approving purchase on any scale of stock was small. Naturally in a matter of that kind I laid much more stress on the advice I got from my advisers in New York.....

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H.M.Jr: Who are they? J. P. Morgan and Company?

Mr. Gifford: That's right. And they were very strong and very definite that they could not hold out any hope at all. In two cases out of the fourteen -- that is about twelve per cent of the total -- they actually are represented on the companies and I saw in each case the member of the firm who is on the Board and that was quite conclusive as regards those two companies. No hope there of the thing being done. In one case they need more working capital. The other is where they have a construction program and large maturities in the future.

Now having got that length I then saw Mr. Coleman, the solicitor, and asked for his views and got him to look at the abstracts that had been made and he gave me a report on the subject and discussed it with me and he was clear that in view of the legal question as to when companies are justified in buying their own stock, and his opinion was that it was very unlikely that any Board of Directors would take responsibility in the circumstances which these statements disclosed. Now of course that advice I have received, both practical financial advice and legal advice, is I am sorry to say so strong that I feel that I can only give one answer to the question which you asked me to consider.

I would like to say this. You urged upon me that we might make a trial by approaching one or two of the Presidents. I put that to my advisers. They were very adverse to doing that, because they felt that they could judge so well as to the probability of the reception of that idea and with unanimity, and I discussed it with more than one partner -- quite a number of them -- and with unanimity they felt that none of the Presidents would do more than give a negative answer. He might be able to say no, but he wouldn't do more than that without consulting the members of his Board, and they therefore did not feel that there would be much advantage to be gained by approaching these Presidents.

H.M.Jr: From what you tell me of this analysis -- and I have no way of making any analysis myself -- it seems that.....

-5-

Mr. Gifford: I should of course say that all my facts are at the service of your advisers if you wish. I have nothing to hide in the matter.

H.M.Jr: No! No! It was an idea. Evidently it was no good. Let's put it to one side. That's that! I didn't realize the companies were in that condition. I have no way of knowing. It was worth trying and certainly you have not hurt the credit of your Government in any way whatsoever.....

Mr. Gifford: Not in the slightest.

H.M.Jr: by discussing it because nobody knows it. There have been no leaks out of our Treasury and never will be. It was an idea. No good. Finished. Where do we go from here?

Mr. Gifford: Now the next thing I would like to say to you, I shall at once on that let the Treasury in London know the position and I shall expect to receive from them, in view of the decision that was taken at the meeting in the Treasury before I left, I shall expect to receive from them the statement of the date they propose to make the vesting order and then I would like you to know this.

Mr. Pinsent: The vesting order probably being for the 60 securities.

Mr. Gifford: Oh yes, undoubtedly.

I had a little discussion at the Treasury as to what would happen on the vesting taking place. We recognize, both in London and at 23 Wall Street, that while the method is, as far as we can all judge, and we had a very thorough discussion of it again, whether there was any other method that might be suggested back to the Treasury in London -- I had a complete discussion with the partners of their experience in 1914 -- and the conclusion was again very definitely arrived at that in the absence of it being possible to borrow in the United States, while the method is not ideal no one can think of any better method. That's what it comes to. Then I expressed the view to the Treasury in London that it

-6-

might be necessary if there was a shock in the headlines, as there might be in America when we vest, that it may be desirable for us to hold off the market to show that we are not going to bag the market and that is the view of my advisers. We hope over here that it won't take us long but I can tell you that in the message from the Treasury six weeks might be the period we might hold off the market.

H.M.Jr: After you announced that you had vested, that you might not sell for as much as six weeks?

Mr. Gifford: Exactly. All depending on how the condition of the market is and with a view to get time to let any adverse affect simmer off.

H.M.Jr: But you don't know whether the Treasury will go ahead and vest, do you?

Mr. Gifford: I think I do. I can tell you this. That the decision was taken at the meeting I was at, discussing as if the suggestion that you were good enough to put before us had not been made, and then it was decided by the heads of the Treasury, subject to that, we would go ahead and vest. Now of course whether any change has occurred I can't tell you, but my belief is that the answer now will be that I will get a cablegram that we propose to vest on such and such a date.

H.M.Jr: I would like to ask you a question. Who in the United States -- does anybody know what these companies are in these 60 securities?

Mr. Gifford: Not except my advisers at 23 Wall Street.

H.M.Jr: They know?

Mr. Gifford: Oh yes.

H.M.Jr: Do we know here?

Mr. Gifford: I don't think so.

H.M.Jr: You have not had the list?

Mr. Cochran: No.

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H.M.Jr: If they know would it be reasonable to let the United States Treasury know?

Mr. Gifford: Unquestionably. They have to know because we made-- Mr. William and I -- made up the list and then we submitted it to them, you see, to say is it your view that this is a fair spread of American industry.

H.M.Jr: If they know -- I would like for the S.E.C. and ourselves to know.

Mr. Gifford: And I take it for granted, if you will excuse me for mentioning it, of course it's for themselves alone.

H.M.Jr: I can promise you as far as the United States Treasury is concerned it will be confined to those whom I can trust. I will ask the S.E.C. when I give it to them can they make the same promise to me, and if they can't give me proper assurance then I won't give it to them.

Mr. Gifford: That's all I want.

H.M.Jr: I won't give it to them unless Mr. Frank assures me, but they are charged with the supervision of the American Stock Exchange. If you had told me nobody in the United States knows I would say then for heavens sakes don't give it to me. But if J. P. Morgan knows I think the Government should know.

Mr. Gifford: I accept it absolutely.

H.M.Jr: But I will not give that to S.E.C. -- and if I am not here, you ask Frank if he can give his word of honor to keep it secret and if he can't you had better not give it to him.

Mr. Gifford: There is one very small matter in connection with it -- as a matter of machinery I shall have to go over the 60 again to see when they declare dividends for the purpose of calculating price. It's awkward from our point of view if there comes a dividend because we have to collect it. I think there were three or four of these. I might have to suggest that these three or four be replaced by others.

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H.M.Jr: During my absence -- I will be gone a week -- , Mr. Cochran or Mr. Bell will be here and if you will see Mr. Bell.

Mr. Gifford: I suggest I give you the list as I have it at the moment and if dividends occur prior to the date of vesting we will have to change some of them.

That is all I have to say, sir, unless there is something you would like to say to me.

H.M.Jr: I have one suggestion to make and you can talk this over with the Morgans. This may not be of any use. I know they have somebody who handles public relations for them. I think they have some firm. What's that firm?

Mr. Bell: I. V. Lee.

H.M.Jr: I. V. Lee. They have this firm. You ask them whether they don't think it might be useful to engage somebody by I. V. Lee who would be contacting the financial writers in New York when you begin to do this thing.

Mr. Gifford: Thank you very much, Mr. Secretary.

H.M.Jr: I don't know whether that's done in England.

Mr. Gifford: No.

H.M.Jr: Well it is here. Very often a firm like I. V. Lee, who always have been engaged by both Morgans and Rockefellers to look after their public relations, as they call them here, I think it might be.....

Mr. Gifford:useful.....

H.M.Jr:useful but they could tell you better than I could, because I have never been in Wall Street and never will be so I don't know what goes on after dark in Wall Street.

Mr. Gifford: I shall be very glad to do that.

H.M.Jr: But it's just a suggestion because it gets down to a handful of men.

Mr. Gifford: I shall certainly put that up to them.

-9-

H.M.Jr: They might think well of it and it might give you a better press. We don't do in this country like they do in France -- it isn't a question of paying but it's a question of explaining.

Mr. Gifford: Exactly! Somebody authoritative to tell you.

H.M.Jr: And I think it may be good to arrange to have these financial writers meet you in person.

Mr. Gifford: I would like to think that over.

Mr. Pinsent: We did discuss that with Mr. Frank when Mr. Whigham was here.

H.M.Jr: What did he say?

Mr. Pinsent: He was very much against it. They were only afraid if we tried to get the press straight on certain points they would immediately get crooked on some other ones.

Mr. Gifford: I would like very much to discuss what Mr. Morgenthau suggests.

H.M.Jr: If I were in England and tried to do something as an American I would like very much to have an Englishman explain to the English Financial Writers what I am trying to do. Or a Scotchman. Scotchman better! I would want to get a Scotchman to explain to the English writers what I, as an American, was trying to do.

Mr. Gifford: That appeals to me, but I hesitate about I, a Scotchman, talking to an American writer.

H.M.Jr: Morgans may throw that out the window but please feel these suggestions I am making are only suggestions and one can't tell until you try them.

Mr. Gifford: Thank you very much.

Mr. Pinsent: You remember there was a short statement prepared.

H.M.Jr: I did not see it. I know they worked very hard.

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Mr. Pinsent: That is to be handed out to the press the same day the vesting order is issued -- give them a starting point.

H.M.Jr: But just a cold "handout", as we call it, is not the same thing as having somebody, a high-class American, to talk to and keep talking to.

Mr. Gifford: It is done in England in some other connections. At the end of the last war Lloyd George did that. They get accurate statements instead of garbled ones.

H.M.Jr: That's it, and they have someone to go to to ask for an explanation. Here in the Treasury we have a man like that. He's largely a clearing house of information. When something appears in the press that's incorrect, he explains it. It's up to them entirely.....

Mr. Gifford:whether they correct it or not.

H.M.Jr: Like today's story on the machine tools was all right but the one the Sunday New York Times ran was terrible. It had to be explained and after two days we get a correct story. It's not a question of being favorable, it's just facts. Even the New York Times may be wrong. I don't know about the London Times.

Mr. Gifford: Has been done.

H.M.Jr: It has been done and pre-mature. Well, thank you very much. I appreciate your frankness.

Mr. Gifford: That I do desire to be at all times with you.

H.M.Jr: I will try to be the same with you.

From the night of the 8th until the morning of the 19th I will be gone, but Mr. Bell is here and Mr. Cochran is here and if you will ask to see them they are entirely familiar with what's going on and in the face of a terrible emergency they can send me a telegram, but it has to be awfully important.

Mr. Gifford: Thank you very much. Great pleasure to see you.

February 6, 1940

My dear Mr. President:

I am sending you herewith a copy of a message which the British Ambassador delivered in person this afternoon and which I think you will find very interesting.

Yours sincerely,

The President,
The White House.

February 6, 1949

My dear Mr. President:

I am sending you herewith a copy of a message which the British Ambassador delivered in person this afternoon and which I think you will find very interesting.

Yours sincerely,

The President,
The White House.

February 6, 1940

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I am sending you herewith a copy of a message which the British Ambassador delivered in person this afternoon and which I think you will find very interesting.

Yours sincerely,

The President,
The White House.

February 6, 1940

My dear Mr. Hull:

On February 1, Mr. Pinsent delivered a message, copy of which I am inclosing herewith.

I am also inclosing a copy of a message which I received from the Counselor of the French Embassy.

This afternoon, the British Ambassador delivered to me a message, copy of which you will find inclosed herewith.

In view of the very confidential nature of these three messages, I would appreciate it if you would confine them to yourself and to Mr. Sumner Welles.

Sincerely yours,

Honorable Cordell Hull,
Secretary of State.

February 6, 1940

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I am also inclosing a copy of a message which I received from the Counselor of the French Embassy.

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Sincerely yours,

Honorable Cordell Hull,
Secretary of State.

February 6, 1940.

Memorandum for GENERAL WATSON,
Secretary to the President.

This refers to the subject of my telephone conversation with you today. Up until about a month ago Secretary Morgenthau was receiving through you copies of weekly reports showing purchases by ANTORE in the United States. These have not been coming through recently. We should appreciate learning how we could continue to get this information which is of great value to the Secretary.

Herbert E. Gaston
Assistant Secretary of the Treasury

HEG/r

February 6, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Among the cargo awaiting the Norwegian Steamer NORBRYN now due in New York to take an Amtorg cargo for Vladivostok, is a shipment of five Wright cyclone airplane motors. This is the remainder of a lot of ten motors covered by State Department export license number 3877, issued on December 10, 1939. The other motors of the lot covered by the license have been shipped as follows: One on December 9th, one on December 23d, and three on January 3d. This export license, number 3877, was issued just eight days after the announcement by the President of the moral embargo on aircraft sales to Russia. It is the only aircraft or aircraft parts license issued since December 2d. The State Department granted it after checking with the White House when the Wright Aeronautical Corporation presented proof that they had a contract obliging them to make delivery of these motors.



FEB 6 1940

My dear Mr. President:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ended June 30, 1939, of the Stabilization Fund created by Section 10 (b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1939.

Section 10 (b) of the Gold Reserve Act of 1934 appropriated the sum of \$2,000,000,000 from the receipts representing the increment resulting from the reduction in the weight of the gold dollar, which were covered into the Treasury as miscellaneous receipts in accordance with Section 7 of the Act. The Secretary of the Treasury, with the approval of the President, is authorized for the purpose of stabilizing the exchange value of the dollar, to deal in gold and foreign exchange, and such other instruments of credit and securities as he may deem necessary to carry out the purpose of Section 10 (a) of the Act.

The fund was set up on the books of the Treasury on March 9, 1934, and on April 27, 1934, \$2,000,000,000 in gold from the increment resulting from the reduction in the weight of the gold dollar was transferred to the Fund. Simultaneously \$200,000,000 was transferred from the principal account of the Fund to accounts with the Treasurer of the United States and the Federal Reserve Bank of New York to be used as working capital.

As originally provided the Fund was to have a life of two years from January 30, 1934, unless sooner terminated by the President. However, the President was authorized to extend such period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the Fund for one additional year from January 30, 1936. In January, 1937 (Public No. 1, 75th Congress, approved January 23, 1937) Congress extended the life of the Fund to June 30, 1939, and again in July, 1939 (Public No. 165, 76th Congress, approved July 6, 1939) further extended its life to June 30, 1941, unless sooner terminated by the President.

When, in 1936, France was confronted with a monetary crisis, the United Kingdom, France and the United States realized the necessity

of taking steps to safeguard their economies against competitive exchange depreciation. Therefore, in pursuance of our policy of promoting stability of the exchange value of the dollar, we joined the Governments of Great Britain and France, on September 25, 1936, in the Tripartite Declaration of policy with respect to international monetary principles. Soon thereafter the Governments of Belgium, Switzerland and the Netherlands announced their adherence to this declaration. The machinery for collaboration to obtain the economic objectives laid down in the Tripartite Declaration was provided chiefly by the Stabilization Funds of these countries. The announcements and correspondence with these various governments, which were made public at that time, will be found as Exhibit P to this report.

The accompanying Exhibits M, N, O summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the Tripartite arrangements.

At the present time the Stabilization Fund is not acquiring any currencies of belligerent countries, and is only holding drifting amounts of foreign currencies of belligerent countries which were acquired long before the outbreak of the war. Transactions of this character are summarized in Exhibits K to P, inclusive.

As envisaged by the basic legislation, the Fund has been utilized to stabilize the exchange value of the dollar. As time its operations have assumed exceptional importance, due to the flight of capital to this country caused by acute political developments abroad. Occasions such as the Munich crisis in 1938 and the Czech crisis in 1939 caused holders of a large volume of funds abroad to seek to transfer such funds from Europe to the United States. The demand for dollars consequently became too large to be taken care of through normal commercial banking operations. The American Stabilization Fund intervened, therefore, in cooperation with the Stabilization or Equalization Funds of other governments to provide the necessary dollar against gold.

From time to time, special arrangements have been made by the Fund with countries which were in need of United States dollars. To meet such a need on the part of China, the Stabilization Fund arranged to purchase yuan from China, which that country agreed to repurchase at the same rate as that at which the yuan was sold to the Fund. China's proceeds was secured by adequate gold collateral deposited with the Federal Reserve Bank of New York for the account of the Stabilization Fund. Arrangements of this type, which tend to eliminate exchange uncertainties, are not only beneficial to the

- 3 -

foreign countries obtaining the dollars, but also to the United States as a trading nation. These transactions are shown in Exhibit H.

The Gold Reserve Act of 1934, as originally enacted, required that an annual audit of the operations of the Fund be made and a report thereof submitted to the President. The amendment of July 6, 1939, extending the life of the Fund to June 30, 1941, provides that a report should also be made to the Congress. In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit documents covering these transactions to leave the Treasury or to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials under the Civil Service. This committee is composed of three officials who are not in any way connected with the operations of the Fund and who have served in the Treasury for periods ranging from twenty-five to thirty years. They are thoroughly conversant with Treasury fiscal operations. Each year this committee, together with employees working under their immediate jurisdiction, have audited every transaction of the Fund and its reports and accompanying certifications have been submitted to the President as required by the Gold Reserve Act of 1934. No statements showing the position of the Fund were published prior to March, 1939. Since that date arrangements have been made for the publication of quarterly balance sheets of the Fund.

In view of the fact that this is the first time an annual report has been submitted to the Congress, this report has been prepared to cover the period from April 26, 1934, the date on which the Fund was converted into gold, to June 30, 1939. There are enclosed herewith the following tables showing summaries of transactions in all of the accounts of the Stabilization Fund for the period April 26, 1934 to June 30, 1935, and for each fiscal year thereafter up to June 30, 1939.

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- 4 -

- Exhibit H - Transactions in Chinese Yuan from April 26, 1934 to June 30, 1939
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 - " N -
 - " O -

Similar reports have been transmitted to the Congress.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President

The White House.

By Messenger 11³⁰ am 2/6/40

FEB 6 1940

Sir:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ended June 30, 1939, of the Stabilization Fund created by Section 10 (b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1939.

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of taking steps to safeguard their economies against competitive exchange depreciation. Therefore, in pursuance of our policy of promoting stability of the exchange value of the dollar, in joined the Governments of Great Britain and France, on September 25, 1936, in the Tripartite Declaration of policy with respect to International monetary principles. Soon thereafter the Governments of Belgium, Switzerland and The Netherlands announced their adherence to this declaration. The machinery for collaboration to attain the common objectives laid down in the Tripartite Declaration was provided chiefly by the Stabilization Funds of these countries. The announcements and correspondence with these various governments which were made public at that time, will be found as Exhibit 7 to this report.

The accompanying Exhibits N, X, and O summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the Tripartite arrangements.

At the present time the Stabilization Fund is not acquiring any currencies of belligerent countries, and is only holding trifling amounts of foreign currencies of belligerent countries which were acquired long before the outbreak of the war. Transactions of this character are summarized in Exhibits X to K, inclusive.

As envisaged by the Senate legislation, the Fund has been utilized to stabilize the exchange value of the dollar. At times its operations have assumed exceptional importance, due to the flight of capital to this country caused by acute political developments abroad. Operations such as the French crisis in 1936 and the Greek crisis in 1938 caused holders of a large volume of funds abroad to seek to transfer such funds from Europe to the United States. The demand for dollars consequently became too large to be taken care of through normal commercial banking operations. The American Stabilization Fund intervened, therefore, in cooperation with the Stabilization or Equalization Funds of other governments to provide the necessary dollars against gold.

From time to time, special arrangements have been made by the Fund with countries which were in need of United States dollars. To meet such a need on the part of China, the Stabilization Fund arranged to purchase from China, which that country agreed to repurchase at the same rate as that at which the yuan was sold to the Fund. China's proceeds was secured by adequate gold collateral deposited with the Federal Reserve Bank of New York for the account of the Stabilization Fund. Arrangements of this type, which tend to eliminate exchange uncertainties, are not only beneficial to the

foreign countries obtaining the dollars, but also to the United States as a trading nation. These transactions are shown in Exhibit K.

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 - " **N -**
 - " **O -**

Similar reports have been submitted to the President and to the Senate.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable W. B. Bankhead,

Speaker of the House of Representatives.

By Messenger 11 30 am 2/6/40

FEB 6 1940

Sir:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ended June 30, 1939, of the Stabilization Fund created by Section 10 (b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1939.

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When, in 1936, France was confronted with a monetary crisis, the United Kingdom, France and the United States realized the necessity

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- Exhibit N - Transactions in Chinese Yuan from April 26, 1934 to June 30, 1939**
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 - **O -**

Similar reports have been submitted to the President and to the House of Representatives.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable John H. Garner,
President of the Senate.

By Messenger 11³⁰ am 2/6/40



TREASURY DEPARTMENT

WASHINGTON

December 11, 1939.

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The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Pursuant to your instructions the books of account and records maintained with respect to the operations of the Exchange Stabilization Fund were examined and audited as of the close of each of the fiscal years 1935 to 1939. It was found that such books of account and records were correct and that the transactions reflected therein had been duly authorized.

As a result of the several examinations and audits, the Audit Committee appointed by you has the honor to submit herewith a statement (Exhibit "A") disclosing the financial condition of the Fund as of June 30, 1939, together with several other statements (Exhibits "B" to "O"), which show the totals of the various classes of transactions that were conducted during each of the periods under audit from April 26, 1934 to June 30, 1939. Exhibits "A" to "L" relate to transactions directly affecting the Fund. Exhibits "M" to "O" relate to transactions involving the purchase and sale of exchange for and in behalf of Central Banks of countries operating under the Tripartite Arrangement.

Very truly yours,

Audit Committee.

EXCHANGE STABILIZATION FUND
STATEMENT OF CONDITION AS OF JUNE 30, 1939

Initial Deposit in Fund.....			
Increase to Fund (Net Profit) -			\$2,000,000,000.00
To June 30, 1938.....			
July 1, 1938 to June 30, 1939.....			
Total.....		\$9,874,447.98	
		<u>5,156,009.14</u>	
Cash Accounts -			15,032,457.12
With Treasurer of the United States (Gold Account of the Secretary of the Treasury, Symbol 17-610).....			
With Treasurer of the United States (Checking Account of the Secretary of the Treasury, Symbol 17-615) -		\$1,800,000,000.00	
Balance June 30, 1939.....			
Less: Net Amount paid subsequent to June 30, 1939 relating to transactions negotiated prior to that date.....	\$ 1,599,593.34		
Total.....	<u>1,456.27</u>		
			1,598,137.07
Accounts with Special Disbursing Officers and Special Agents -			
Balance June 30, 1939.....			
Less: Net Amount paid subsequent to June 30, 1939 relating to transactions negotiated prior to that date.....	10,078.22		
Total.....	<u>6,892.91</u>		
			3,185.31
With Federal Reserve Bank of New York (Special Account with the Secretary of the Treasury) -			
Balance June 30, 1939.....			
Less: Net Amount paid subsequent to June 30, 1939 relating to transactions negotiated prior to that date.....	104,695,868.70		
Total.....	<u>128,193.80</u>		
			104,567,674.90
Gold - Special Account No. 1 -			
Balance June 30, 1939.....			
Less: Amount disposed of subsequent to June 30, 1939 relating to transactions negotiated prior to that date..	84,985,664.76		
Total.....	<u>390,242.17</u>		
			84,635,422.59
French Francs - Special Account No. 3 -			
Balance June 30, 1939.....			81.49
British Sterling - Special Account No. 4 -			
Balance June 30, 1939.....			42,225.04
Belgian Belgas -			
Balance June 30, 1939.....			2,220.34
Chinese Yuan - Central Bank of China -			
Balance June 30, 1939.....			
Less: Amount disposed of subsequent to June 30, 1939 representing interest earned prior to that date.....	19,180,127.56		
Total.....	<u>67,627.56</u>		
			19,112,500.00
U. S. Government Securities held June 30, 1939 as investments with Federal Reserve Bank of New York			
at Cost (Par Amount \$5,000,000.00).....			5,026,562.50
Interest on Investments, Accrued but not Due (Amount accrued to June 30, 1939).....			41,796.88
Due from Designated Agencies on Commodity Sales Contracts - Silver.....			15.00
Deferred Charge to Profit and Loss Account (1).....			2,636.00
Gold held by Federal Reserve Bank of New York as Collateral to secure account with Central Bank of China.....	19,379,015.65		
Liability to Central Bank of China for Gold Held (as above).....	<u>19,379,015.65</u>		
			\$2,015,032,457.12
TOTAL AMOUNT OF FUND PER AUDIT.....			\$2,015,032,457.12

(1) This item consists of expenses in the amount of \$456.00 and losses in the amount of \$2,180.00. The expenses were incurred and the losses sustained in connection with commodity sales contracts for silver which were pending when silver was nationalized on August 9, 1934. The loss constitutes the difference between the contract sales price and the nationalization price.

EXCHANGE STABILIZATION FUND

RECAPITULATION OF PROFIT FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	I n c r e m e n t t o F u n d										Less Net Administrative Expenses	Net Profit
	Gold Transactions	Silver Transactions	British Sterling Transactions	French Franc Transactions	Mexican Peso Transactions	Chinese Yuan Transactions	Netherlands Guilder Transactions	Investments in U.S. Government Securities	Interest on Disbursing Officers' Bank Balances	Total		
Apr. 26, 1934 to June 30, 1935	\$ 585,627.95	\$3,481,142.44	\$ 25,049.40	\$351,594.95	\$.....	\$.....	\$.....	\$1,428,476.00	\$.....	\$ 5,871,890.74	\$117,391.24	\$ 5,754,499.50
F. Y. 1936	12,065.95	.....	65,249.94	(1) - 90.00	55,593.49	.....	.....	683,667.68	.....	816,487.06	137,993.16	678,493.90
F. Y. 1937	641,300.83	74,326.30	8,962.75	.....	.....	.....	.....	673,199.38	7.52	1,397,796.78	195,544.02	1,202,252.76
F. Y. 1938	1,244,378.27	23,264.82	211,396.41	511.79	1,123.88	406,368.31	.....	572,754.01	15.94	2,459,813.43	220,611.61	2,239,201.82
F. Y. 1939	4,549,732.87	.....	6,239.09	(2) - 4.25	.....	573,023.34	10.00	290,866.58	- .16	5,419,867.47	261,858.33	5,158,009.14
Totals	\$7,033,105.87	\$3,578,733.56	\$316,897.59	\$352,012.49	\$56,717.37	\$979,391.65	\$10.00	\$3,648,963.65	\$23.30	\$15,969,855.48	\$933,398.36	\$15,036,457.12

(1) Represents communication expenses incurred.

(2) Represents decrease in dollar value of French Franc balance on June 30, 1939 below its dollar value on June 30, 1938.

Note:

During the fiscal year 1939 Belgian Belgas and Swiss Francs were acquired but were disposed of prior to the close of fiscal year without profit, as shown on attached Exhibits J and K. There were no transactions in these currencies in prior years.

RICHMOND STABILIZATION FUND
ANALYSIS OF PROFIT FROM APRIL 26, 1934 TO JUNE 30, 1935

EXHIBIT 2-1

Detail	April 26, 1934 to June 30, 1935	Fiscal Year 1936	Fiscal Year 1937	Fiscal Year 1938	Fiscal Year 1939	Totals
GOLD TRANSACTIONS						
Profits on gold (1).....	\$ 383,067.61	\$ 12,065.95	\$ 641,300.83	\$ 1,244,378.27	\$ 4,549,732.87	\$ 6,830,545.53
Unused balance of reserve for expenses of shipping gold, transferred to profit..	202,560.34					202,560.34
Total.....	585,627.95	12,065.95	641,300.83	1,244,378.27	4,549,732.87	\$ 7,033,105.87
SILVER TRANSACTIONS						
Profits on silver sold to Treasurer, U.S....	3,473,362.29					3,473,362.29
Profits on silver sold in London.....	7,780.15		74,326.30	23,264.82		105,371.87
Total.....	3,481,142.44		74,326.30	23,264.82		3,578,733.56
BRITISH STERLING TRANSACTIONS						
Profits on sterling transactions.....	25,012.93	69,112.90		211,258.34	6,205.03	307,589.26
Interest on sterling balances.....	36.41		8,759.11	55.57	9.06	8,860.15
Miscellaneous earnings.....		137.04	203.64	82.90	25.00	448.58
Total.....	25,049.40	69,249.94	8,962.75	211,396.41	6,239.09	316,897.59
FRENCH FRANCS TRANSACTIONS						
Profit or loss on franc transactions.....	335,162.94	(2) - 90.00		509.25	(3) - 4.25	335,577.94
Interest on franc balances.....	16,432.01			2.50		16,432.01
Miscellaneous earnings.....					2.50	2.50
Total.....	351,594.95	(2) - 90.00		511.75	(1) - 4.25	352,012.49
MEXICAN PESO TRANSACTIONS						
Interest on peso balances.....		95,593.49		1,123.88		96,717.37
CHINESE YUAN TRANSACTIONS						
Interest on yuan balances.....				406,368.31	573,023.34	979,391.65
NETHERLANDS GUILDER TRANSACTIONS						
Profits on guilder transactions.....					10.00	10.00
INVESTMENTS IN U.S. GOVERNMENT SECURITIES						
Profits on securities.....	426,171.59	3,239.62		61,802.49	128,612.47	619,826.17
Interest on securities.....	1,002,304.41	580,428.05	673,199.34	510,951.52	162,254.11	3,089,137.48
Total.....	1,428,476.00	583,667.67	673,199.34	572,754.01	290,866.58	3,648,963.65
INTEREST ON DISBURSING OFFICERS' BALANCES						
Miscellaneous earnings.....			7.52	15.94	- .16	23.30
TOTALS.....	5,871,890.74	816,487.06	1,397,796.78	2,459,813.43	5,419,867.47	15,965,855.48
LESS: ADMINISTRATIVE EXPENSES						
Salaries.....	51,554.44	80,952.23	108,918.81	138,536.19	169,691.01	949,652.68
Travel.....	12,441.40	6,505.32	4,253.16	8,585.92	9,436.32	41,222.12
Subsistence.....	7,235.19	4,261.69	1,990.31	5,021.95	10,308.10	28,817.24
Telephone and Telegraph.....	36,805.68	35,660.06	49,429.56	48,101.79	50,622.90	220,620.09
Printing, stationery, and office supplies..	216.60	2,269.12	6,645.21	2,101.74	1,569.40	12,802.07
Miscellaneous.....	9,137.93	8,396.63	22,629.88	18,264.62	17,402.43	75,830.87
Total.....	117,391.24	138,045.05	193,867.01	220,611.61	299,030.14	928,945.07
PROFIT OR LOSS ON SALE OF FRENCH FRANCS RECEIVED AS DEBATE OF ACCOUNT OF CABLE CHARGES						
Profit - F; Loss - L.....		2 - 51.89	1,676.99		1,828.19	4,453.29
TOTALS.....	117,391.24	137,993.16	195,544.02	220,611.61	261,858.33	933,398.36
NET PROFIT.....	\$5,754,499.50	\$678,493.90	\$1,202,252.76	\$2,239,201.82	\$5,158,009.14	\$15,032,457.12

(1) Includes profit derived from handling charges.

(2) Represents communication expenses incurred.

(3) Represents decrease in dollar value of French Franc balances on June 30, 1939 below its dollar value on June 30, 1938.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN GOLD FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Gold acquired		Shipping and miscellaneous expenses Dollars	Gold disposed of		Profit Dollars (1)	Unused balance: of reserve for: expense of shipping gold transferred to: profit Dollars	Loss in melting of gold Ounces	Total increment to Fund Dollars	Balance held at close of Fiscal Year	
	Ounces	Dollar Value		Ounces	Dollar Value					Ounces	Dollar Value
Apr. 26, 1934 to June 30, 1935	5,823,525.183	203,161,120.78	.....	5,823,525.183	203,544,188.39	383,067.61	202,560.34	.....	585,627.95	.....	.....
F. Y. 1936	1,729,183.528	60,455,862.76	.....	37,872.623	1,329,480.05	12,065.95	.....	.....	12,065.95	1,691,310.905	59,138,448.66
F. Y. 1937	10,627,119.288	369,903,906.92	568,249.96	7,474,016.614	261,612,356.76	641,300.83	.....	603.153	641,300.83	4,643,810.426	168,639,549.61
F. Y. 1938	12,941,689.897	452,204,057.63	323,079.60	16,536,179.425	578,709,838.83	1,244,378.27	.....	458.528	1,244,378.27	1,248,862.370	43,701,226.28
F. Y. 1939	36,193,017.983	1,260,912,946.91	1,706,255.66	35,022,236.209	1,226,234,739.13	4,549,732.87	.....	1,489.213	4,549,732.87	2,418,154.931	84,635,422.59
Totals	67,314,535.879	2,345,637,895.00	2,597,585.22	64,893,830.094	2,271,430,603.16	6,830,545.53	202,560.34	2,550.894	7,033,105.87		

(1) Includes profit derived from handling charges.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN SILVER FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Silver acquired		Silver disposed of		Profit Dollars	Total Increment to Fund Dollars	Balance held at close of Fiscal Year	
	Ounces	Dollar Value	Ounces	Dollar Value			Ounces	Dollar Value
Apr. 26, 1934 to June 30, 1935	107,357,312.41	54,563,829.35	107,357,312.41	58,044,971.79	3,481,142.44	3,481,142.44	.....	.....
F. Y. 1936	224,728,369.53	148,345,874.75	224,728,369.53	148,345,874.75	.....	.....	.....	.....
F. Y. 1937	7,099,805.41	3,198,915.26	4,100,000.00	1,950,591.18	74,326.30	74,326.30	2,999,805.41	1,382,650.38
F. Y. 1938	3,801,516.67	1,636,705.76	6,801,322.08	2,982,620.96	23,264.82	23,264.82	.....	.....
F. Y. 1939	.....	.....	.....	.....	.....	.....	.....	.....
Totals	342,987,004.02	207,745,325.12	342,987,004.02	211,324,058.68	3,578,733.56	3,578,733.56		

Note:

Profit on Silver -	
Sold to Treasurer of the United States	\$3,473,362.29
Sold in London	<u>105,371.27</u>
	<u>\$3,578,733.56</u>

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN BRITISH STEELING FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Sterling acquired		Sterling disposed of		Profit	Interest received on Sterling balances	Excess of allowances by purchasers of Sterling, over expenditures, for cables	Total increment to Fund	Balance held at close of Fiscal Year	
	£ s. d.	Dollar Value	£ s. d.	Dollar Value					£ s. d.	Dollar Value
Apr. 26, 1934 to June 30, 1935	16,485,584- 3- 1	\$1,562,742.18	16,481,284- 2- 5	\$1,566,480.67	25,012.99	36.41	.....	25,049.40	4,300- 0- 8	21,274.50
F. Y. 1936	16,806,325-15- 5	\$3,295,119.57	16,810,625-16- 1	\$3,361,644.01	65,249.94	.....	.....	65,249.94	.....	.....
F. Y. 1937	28,564,279- 0- 6	\$39,919,154.10	28,302,633-10- 8	\$38,609,650.56	.....	6,759.11	203.64	8,962.75	261,445- 9-10	1,309,303.54
F. Y. 1938	9,227,618- 7- 7	\$9,610,188.74	9,468,815-14- 6	\$7,030,504.85	211,258.34	55.57	82.50	211,396.41	20,246- 2-11	100,245.77
F. Y. 1939	26,088,604- 0- 7	\$24,186,524.18	26,099,828- 9- 3	\$24,250,749.94	6,205.03	9.06	25.00	6,239.09	9,023-14- 3	42,225.04
Totals	97,172,411- 7- 2	\$74,573,728.77	97,163,387-12-11	\$74,839,230.03	307,726.30	\$,660.15	311.14	316,697.59		

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN FRENCH FRANCS FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Francs acquired		Francs disposed of		Profit Dollars	Interest received on Franc balances Dollars	Excess of allowances by purchasers of Francs, over expenditures, for cables Dollars	Total increment to Fund Dollars	Balance held at close of Fiscal Year	
	Number	Dollar Value	Number	Dollar Value					Number of Francs	Dollar Value
Apr. 26, 1934 to June 30, 1935	1,171,904,682.89	77,340,684.20	1,171,904,682.89	77,675,847.14	335,162.94	16,432.01	.....	351,594.95	.....	.....
F. Y. 1936	.....	.....	.....	.....	(1) - 90.00	.....	.....	(1) - 90.00	.....	.....
F. Y. 1937	2,000,000.00	93,071.25	1,970,815.56	91,711.86	.....	.....	.....	.....	29,184.44	1,359.39
F. Y. 1938	2,713,893.40	91,719.56	2,740,001.40	93,502.50	509.29	.....	2.50	511.79	3,076.44	85.74
F. Y. 1939	.....	.....	.....	.....	(2) - 4.25	.....	.....	(2) - 4.25	3,076.44	81.49
Totals.....	1,176,618,576.29	77,525,475.01	1,176,618,499.85	77,861,061.50	335,577.98	16,432.01	2.50	352,012.49		

(1) Represents dollar communication expenses relating to French Franc transactions which were charged against profit on French Francs.

(2) Represents decrease in dollar value of French Franc balance on June 30, 1939 below its dollar value on June 30, 1938.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN MEXICAN PESOS FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Pesos Acquired		Pesos Disposed Of		Profit Dollars	Interest Received on Peso Balances Dollars	Total Increment to Fund Dollars	Balance Held at Close of Fiscal Year	
	Number	Dollar Value	Number	Dollar Value				Number of Pesos	Dollar Value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	17,000,000	4,726,000.00	17,000,000	4,726,000.00	.....	55,593.49	55,593.49	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	10,804,050	2,998,123.88	10,804,050	2,998,123.88	.....	1,123.88	1,123.88	.....	.....
F. Y. 1939	.....	.....	.....	.....	.....	.....	.....	.....	.....
Totals	27,804,050	7,724,123.88	27,804,050	7,724,123.88	.....	56,717.37	56,717.37	.....	.....

Note:

Mexican pesos were purchased from time to time by the Federal Reserve Bank of New York as fiscal agent of the United States, from the Banco de Mexico, S. A., in exchange for dollars, under an arrangement approved by the Secretary of the Treasury January 7, 1936. By the terms of this arrangement (1) the Banco de Mexico, S. A., was to credit any pesos purchased, and interest thereon at the prescribed rate per annum, to an account in the name of the Federal Reserve Bank of New York, as fiscal agent of the United States; and (2) the Banco de Mexico, S. A., was to repurchase all pesos standing to the credit of the Federal Reserve Bank, including pesos credited as interest.

The repurchases of pesos were effected by the Banco de Mexico, S. A., at the same rate at which the pesos were purchased thus yielding no profit on the purchase and repurchase transactions. The pesos received as interest, however, netted a profit of \$56,717.37 as disclosed above.

The arrangement was entered into for the purpose of supplying the Republic of Mexico with United States dollar exchange and the account was at all times secured by either silver or gold deposited as collateral. The arrangement was terminated December 31, 1938.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN CHINESE YUAN FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Yuan acquired		Yuan disposed of		Profit Dollars	Interest received on Yuan balances Dollars	Total increase to Fund Dollars	Balance held at close of Fiscal Year		Gold held as security for repurchase of Yuan by Central Bank of China	
	Number	Dollar Value	Number	Dollar Value				Number of Yuan	Dollar Value	Ounces	Dollar Value
Apr. 26, 1934 to June 30, 1935											
F. Y. 1936											
F. Y. 1937											
F. Y. 1938	166,383,013.92	48,893,868.31	1,383,013.92	406,368.31	.....	406,368.31	406,368.31	165,000,000.00	48,427,500.00	1,395,381.168	48,838,340.89
F. Y. 1939	1,949,758.98	573,023.34	101,949,758.98	29,048,023.34	.....	573,023.34	573,023.34	65,000,000.00	19,112,500.00	553,686.162	19,379,015.65
Totals	168,332,772.90	49,466,891.65	103,332,772.90	30,354,391.65	.....	979,391.65	979,391.65				

Note:

Chinese yuan were purchased from time to time by the Federal Reserve Bank of New York, as fiscal agent of the United States, from the Central Bank of China, in exchange for dollars, under an arrangement approved by the Secretary of the Treasury July 14, 1937. By the terms of this arrangement (1) the Central Bank of China was to credit any yuan purchased, and interest thereon at the prescribed rate per annum, to an account in the name of the Federal Reserve Bank of New York, as fiscal agent of the United States; and (2) the Central Bank of China was to repurchase all yuan standing to the credit of the Federal Reserve Bank, including yuan credited as interest.

The repurchases of yuan were effected by the Central Bank of China at the same rate at which the yuan were purchased, thus yielding no profit on the purchase and repurchase transactions. The yuan received as interest, however, netted a profit of \$979,391.65 as disclosed above.

The arrangement was entered into for the purpose of supplying the Republic of China with United States dollar exchange and the account has at all times been secured by gold deposited as collateral. The arrangement had not been terminated to June 30, 1939.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN NETHERLANDS GUILDERS FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Guilders acquired		Guilders disposed of		Profit Dollars	Total Increment to Fund Dollars	Balance held at close of Fiscal Year	
	Number	Dollar Value	Number	Dollar Value			Number of Guilders	Dollar Value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	100,000.00	53,085.00	100,000.00	53,095.00	10.00	10.00	.....	.....
Totals	100,000.00	53,085.00	100,000.00	53,095.00	10.00	10.00	.....	.....

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN BELGIAN BELGAS FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Belgas acquired		Belgas disposed of		Profit Dollars	Total Increment to Fund Dollars	Balance held at close of Fiscal Year	
	Number	Dollar Value	Number	Dollar Value			Number of Belgas	Dollar Value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	12,190,000.00	2,051,604.50	12,176,806.44	2,049,384.16	.....	.....	13,193.56	2,220.34
Totals	12,190,000.00	2,051,604.50	12,176,806.44	2,049,384.16	.....	.....

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN SWISS FRANCS FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Francs acquired		Francs disposed of		Profit Dollars	Total Increment to Fund Dollars	Balance held at close of Fiscal Year	
	Number	Dollar Value	Number	Dollar Value			Number of Francs	Dollar Value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	250,000.00	56,050.00	250,000.00	56,050.00	.....	.....	.....	.....
Totals	250,000.00	56,050.00	250,000.00	56,050.00	.....	.....	.....	.....

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN INVESTMENTS IN UNITED STATES SECURITIES FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Purchases		Sales		Profit Dollars	Interest earned			Total increment to Fund Dollars	Balance held at close of Fiscal Year	
	Par Amount	Cost	Par Amount	Sale Price		Due and collected Dollars	Accrued 'but not due Dollars	Total Dollars		Par Amount	Cost
	Dollars	Dollars	Dollars	Dollars						Dollars	Dollars
Apr. 26, 1934 to June 30, 1935	71,438,310.00	72,119,226.52	44,804,910.00	45,770,508.17	426,171.59	792,427.67	209,876.74	1,002,304.41	1,428,476.00	26,633,400.00	26,774,889.94
F. Y. 1936	.....	.....	6,633,400.00	6,671,879.56	3,239.62	513,240.56	167,187.50	680,428.06	683,667.68	20,000,000.00	20,106,250.00
F. Y. 1937	10,000,000.00	10,081,075.03	.....	.....	.....	495,765.98	177,433.40	673,199.38	673,199.38	30,000,000.00	30,187,325.03
F. Y. 1938	1,165,000.00	1,220,507.83	16,165,000.00	16,361,997.82	61,802.49	458,908.74	52,042.78	510,951.52	572,754.01	15,000,000.00	15,107,637.53
F. Y. 1939	.....	.....	10,000,000.00	10,209,687.50	128,612.47	120,457.23	41,796.88	162,254.11	290,866.58	5,000,000.00	5,026,562.50
Totals	82,603,310.00	83,420,809.38	77,603,310.00	79,014,073.05	619,826.17	2,380,800.18	648,337.30	3,029,137.48	3,648,963.65		

SPECIAL FOREIGN EXCHANGE

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF FRANCE UNDER THE TRIPARTITE ARRANGEMENT

FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Francs acquired		Add	Deduct	Total cost	Francs disposed of		Allowances made	Add	Total proceeds
	Number	Dollar Value	Cable expense	Brokerage refunds		Dollars	Number	Dollar Value	by, and received from, purchasers on account of cable charges		Brokerage refunds	Dollars
			Dollars	Dollars	Dollars			Dollars	Dollars	Dollars
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	193,660,000	8,908,569.99	115.00	53.37	8,908,631.62	176,675,000	8,291,910.31	120.00	310.39	8,292,340.70
F. Y. 1938	286,515,000	9,234,746.14	145.00	.....	9,234,891.14	363,320,000	11,373,448.51	150.00	.....	11,373,598.51
F. Y. 1939	551,215,000	14,850,092.65	245.00	.....	14,850,337.65	76,535,000	2,042,487.18	35.00	.....	2,042,522.18
Totals	1,031,390,000	32,993,408.78	505.00	53.37	32,993,860.41	616,530,000	21,707,846.00	305.00	310.39	21,708,461.39

SPECIAL FOREIGN EXCHANGE

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF ENGLAND UNDER THE TRIPARTITE ARRANGEMENT

FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Sterling acquired			Add Cable expense Dollars	Total cost Dollars	Sterling disposed of			Allowances made by and received from, purchasers on account of cable charges Dollars	Total proceeds Dollars
	£	s. d.	Dollar Value			£	s. d.	Dollar Value		
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	10,839,000- 0- 0		50,746,984.48	185.00	50,747,169.48	1,593,500- 0- 0		7,604,563.13	10.00	7,604,573.13
Totals	10,839,000- 0- 0		50,746,984.48	185.00	50,747,169.48	1,593,500- 0- 0		7,604,563.13	10.00	7,604,573.13

SPECIAL FOREIGN EXCHANGE

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF NETHERLANDS UNDER THE TRIPARTITE ARRANGEMENT

FROM APRIL 26, 1934 TO JUNE 30, 1939

Period	Guilders acquired		Add Cable expense Dollars	Total cost Dollars	Guilders disposed of		Allowances made by and received from, purchasers on account of cable charges Dollars	Total proceeds Dollars
	Number	Dollar Value			Number	Dollar Value		
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	18,420,000	10,085,980.25	155.00	10,086,135.25
F. Y. 1938	.....	.....	.....	.....	5,012,000	2,768,209.80	22.50	2,768,232.30
F. Y. 1939	11,820,000	6,274,647.00	32.50	6,274,679.50	.....	.....	.....	.....
Totals	11,820,000	6,274,647.00	32.50	6,274,679.50	23,432,000	12,854,190.05	177.50	12,854,367.55

Exhibit B

TREASURY DEPARTMENT

Washington

341

FOR IMMEDIATE RELEASE
Friday, September 25, 1936

Press Service
No. 8-53

By authority of the President, the Secretary of the Treasury makes the following statement:

1. The Government of the United States, after consultation with the British Government and the French Government, joins with them in affirming a common desire to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living of peoples.

2. The Government of the United States must, of course, in its policy towards international monetary relations take into full account the requirements of internal prosperity, as corresponding considerations will be taken into account by the Governments of France and Great Britain; it welcomes this opportunity to reaffirm its purpose to continue the policy which it has pursued in the course of recent years, one constant object of which is to maintain the greatest possible equilibrium in the system of international exchange and to avoid to the utmost extent the creation of any disturbance of that system by American monetary action. The Government of the United States shares with the Governments of France and Great Britain the conviction that the continuation of this two-fold policy will serve the general purpose which all the Governments should pursue.

3. The French Government informs the United States Government that, judging that the desired stability of the principal currencies cannot be insured on a solid basis except after the re-establishment of a lasting equilibrium between the various economic systems, it has decided with this object to

propose to its Parliament the readjustment of its currency. The Government of the United States, as also the British Government, has welcomed this decision in the hope that it will establish more solid foundations for the stability of international economic relations. The United States Government, as also the British and French Governments, declares its intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment. It will arrange for such consultation for this purpose as may prove necessary with the other two Governments and their authorized agencies.

4. The Government of the United States is moreover convinced, as are also the Governments of France and Great Britain, that the success of the policy set forth above is linked with the development of international trade. In particular it attaches the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition.

5. The Government of the United States, in common with the Governments of France and Great Britain, desires and invites the cooperation of the other nations to realize the policy laid down in the present declaration. It trusts that no country will attempt to obtain an unreasonable competitive exchange advantage and thereby hamper the effort to restore more stable economic relations which it is the aim of the three Governments to promote.

TREASURY DEPARTMENT

343

Washington

FOR IMMEDIATE RELEASE
Saturday, September 26, 1936,

Press Service
No. 8-55

The Secretary of the Treasury makes public the following note from the Belgian Embassy, transmitted to the Treasury Department by the Secretary of State:

"BELGIAN EMBASSY

Washington,
September 26, 1936.

No. 3479

"Mr. Secretary,

"Upon the order of my Government, I have the honor to inform Your Excellency of the following:

"1) The Belgian Government has learned of the declarations by which the Governments of France, Great Britain and the United States have considered it opportune to express their intentions with regard to the monetary and economic problems existing at the present time, and joins with them in affirming a common intention of safeguarding the peace, of favoring the establishment of conditions which will contribute to the restoration of order through the international economic relations and to pursue a policy with a view to developing world prosperity and improving the standard of living of all peoples.

"2) To this effect the Belgian Government is decided to modify in no way the monetary policy which it has carried out during the last year and a half and which has had the effect of assuring the complete stability of the Belgian franc on the international exchange market, avoiding any disturbance of that market.

"3) The French Government, considering that the desirable stability of the principal currencies cannot be assured on a solid basis without a previous re-establishment of a durable equilibrium between the various national economies, has decided to propose for this purpose to its Parliament the adjustment of its currency. The Belgian Government, as well as the Governments of the United States and Great Britain, considers that this decision is of a nature to establish on more solid foundations the stability of international relationships. It is ready to take part as often as it may be necessary or useful in the consultations which may be called, either between the interested Governments or between the competent institutions.

"4) The Belgian Government, as well as the Governments of France, Great Britain and the United States, is moreover convinced that the success of the policy above outlined is bound up with the development of international commerce.

" Particularly, it attaches the greatest importance to the initiation of an action without delay with a view to reducing progressively the existing systems of contingents and control of exchange with a view to their final abolition.

"5) The Belgian Government; as well as the Governments of France, Great Britain and the United States, considers that the collaboration of the other nations for the realization of this program above mentioned is highly desirable. For this purpose, the Belgian Government will remain always willing and ready to bring its entire collaboration.

"For the Ambassador:

(Signed) PRINCE EUGENE DE LIGNE"

His Excellency,
The Secretary of State,
Department of State,
Washington, D.C.

TREASURY DEPARTMENT

345

Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-93

By authority of the President the Secretary of the Treasury announces that as a further step in the direction of international monetary equilibrium arrangements have been made to give effect to the desire of the Governments of Belgium, The Netherlands and Switzerland to cooperate with the Governments of the United States, Great Britain and France in accordance with the principles of the tripartite declaration of September 25, 1936.

The Belgian Government notified the United States of its adherence to these principles on September 26. Similar declarations of adherence have now been received from the Governments of The Netherlands and Switzerland.

The Governments of the United States, Great Britain, and France welcome the declarations of the Governments of Belgium, Switzerland and The Netherlands expressing their adherence to the principles stated in the tripartite declaration of September 25.

Arrangements have been made by the United States Treasury for gold transactions on a reciprocal basis with these three countries. These arrangements are given effect by public statements of the Secretary of the Treasury which are annexed hereto:

(1) A statement supplementing the statement of the Secretary of the Treasury dated October 13, 1936, with respect to reciprocal transactions in gold with certain countries, and withdrawing the statement of January 31, 1934, relating to the sale of gold for export;

(2) A statement naming the countries of Belgium, The Netherlands and Switzerland as complying with the conditions of the statement of October 13 as supplemented by the above statement.

- 2 -

In addition to the statements to which reference is made above, copies of communications from the Governments of The Netherlands and Switzerland are made public herewith.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
11/23/36

Press Service
No. 8-95

The Secretary of the Treasury today named the following additional countries:

Belgium
The Netherlands
Switzerland

as complying with the conditions specified in his press release of October 13, 1936, as supplemented by his press release of November 24, 1936, for the purchase of gold from the United States for immediate export or earmark.

--oOo--

TREASURY DEPARTMENT

Washington

Press Service
No. 8-96

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, November 24, 1936.
11/23/36

The Secretary of the Treasury makes public the following note from the Swiss Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"LEGATION DE SUISSE

Washington, D. C.

November 21, 1936.

"Sir:

"I have the honor to inform you that I have been instructed by my Government to convey to you the following:

"The Government of Switzerland has cognizance of the declarations by which the Governments of France, Great Britain and the United States of America have seen fit to express their intentions with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25."

"Accept, Sir, the assurances of my highest consideration.

(Signed) MARC PETER

Minister of Switzerland.

"The Honorable
R. Walton Moore,
Acting Secretary of State,
Washington."

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 24, 1936.
 11/23/36

Press Service
 No. 8-97

The Secretary of the Treasury makes public the following note from the Royal Netherland Legation, transmitted to the Treasury Department by the Acting Secretary of State:

"ROYAL NETHERLAND LEGATION
 No. 3775

Washington, D. C.
 November 21, 1936.

"Sir:-

"Acting upon instructions of the Minister of Foreign Affairs of the Netherlands I have the honor to inform Your Excellency of the following declaration made by my Government:

"The Government of the Netherlands has cognizance of the declarations by which the Governments of France, Great Britain and the United States have seen fit to express their intention with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25, 1936."

"I avail myself of this opportunity to renew to you, Sir, the assurances of my highest consideration.

(Signed) C. van Braugel Douglas.

Charge d'Affaires a.i.
 of the Netherlands.

"The Honorable R. Walton Moore,
 Acting Secretary of State,
 Washington, D. C."

The 5/5 in New York is
not due until Feb 14
BHz

350

RECEIVED

Date..... 2/16/40
Time..... 2:35 P

ENFORCEMENT UNIT
CUSTOMS AGENCY SERVICE

WASH CUST AGCY MR SHAMHART ON LINE GA
MR SALTER TALKING

ADVERTING YOU TELETYPE MESSAGE EVEN DATE RUSSIAN SS VA
VLADIMIR MAYAKOVSKI REPRESENTED BY GENERAL SS CORPORATION AS
AGENTS BOND FILED AND WORKING PERMIT ISSUED TODAY BUT VESSEL HAS
NOT PUT IN APPEARANCE AS YET HOWEVER MAYBE OUTSIDE BREAKWATER
UNABLE TO COME IN HARBOR ACCOUNT HEAVY FOG STOP EXAMINATION OF
EXPORT DECLARATIONS BOTH LOS ANGELES AND SAN PEDRO OFFICES FAILS TO
DISCLOSE ANY SUCH DOCUMENTS FILED HERE FOR EXPORTATIONS VESSEL NAMED
LIKES LIKewise NO LICENSES ON FILE HERE AUTHORIZING EXPORTATION
AIRPLANES OR AIRPLANE PARTS STOP CHECK OF DOCK BY INSPECTORS
DISCLOSES ONLY CARGO HERE FOR TRANSPORTATION BY VESSEL NAMED IS
736 BARRELS WEIGHING APPROXIMATELY 625 POUNDS EACH MOLYBDENUM
CONCENTRATES SHIPPED BY CLIMAX MOLYBDENUM CO OF CLIMAX COLORADO WHICH
MERCHANDISE HAS BEEN ON DOCK IN LOS ANGELES FOR APPROXIMATELY TWO
MONTHS AWAITING ARRIVAL OF VESSEL GA

DO U KNOW TO WHOM AND TO WHAT COUNTRY THE MOLYBDENUM IS DESTINED GA

THE ONLY INFORMATION WE HAVE HERE IS THAT IT IS DESTINED TO RUSSIA
IF YOU DESIRE WE WILL GET ALL POSSIBLE INFORMATION GA

I WOULD SUGGEST U GET IT BUT U NEED NOT TELETYPE IT ABCK UNLES OR
UNTIL WE CALL U. THANK END OR GA SHAMHART TALKING FOR W R
JOHNSON

RECEIVED

Date.....

2-6-40

Time.....

12:10 Pm

ENFORCEMENT UNIT
CUSTOMS AGENCY SERVICE
BUREAU OF CUSTOMS, U. S.*BM**EJF*OPR
L A 538OK O
CGO L A
LA 538OK V
VOK L A CUSTMSGA

BUREAU OF CUSTOMS WASHINGTON DC WHO IS THIS TALKING PLS GA

MR POGREBA IS HERE MR SALTERNOT DOWN YET GA

OK. FOLLOWING MESSAGE FROM W R JOHNSON FOR COLLECTOR.

SS MAYAKOVSKI LEFT MANZANILLIO, MEXICO FOR LOS ANGELES FEBRUARY
1 . IT IS REPORTED SHE INTENDS TO LOAD AIRPLANE PARTS FOR
RUSSIA AT LOS ANGELES. REPORT FULLY BY TELETYPE AS SOON AS
POSSIBLE.

CAN U GIVE US ANYTHING ON ABOVE MATTER NOW GA

WILL TRY AND OBTAIN INFORMATION FROM SAN PEDRO NOTHING IN THIS
OFFICE NOW GAOK. GET DATA AND TELETYPE BACK AS SOON AS POSSIBLE. END SHAMHART
TALKING FOR W R JOHNSON

OK END POREBA BY MEM M

Incomplete

352

0

See also 428

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 11:13 a. m.

Secretary of State,
Washington.

180, February 8, 2 p. m. (SECTION ONE).

FOR THE TREASURY FROM MATHEWS.

On the invitation of Rueff I attended last evening a dinner of a group of the Societe d'Economie Politique at which he discussed the economic and financial problems of total war with that clarity and logic on which he is so capable. While some of what he said is obvious the fact that his talk subsequently received the approval of Finance Minister Reynaud who was present appears to warrant a summary of his remarks (as I remember them: he spoke informally from notes and delivered no prepared address):

To carry on a total war the state must obtain the largest amount of capital possible. ("Money" he said with a smile "is an instrument to obscure economic problems" and he would leave it aside for the time being). For the state to get the maximum of capital there are

only

hsm -2- No. 180, February 5, 2 p.m. (Section 1) from Paris
only two methods: (one) to increase the national income
and productivity, and (two) to reduce funds available
for consumption.

MURPHY

RR

TO LIVE IN
SECURITY

1940 FEB 5 11 11 AM '01

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED

February 6, 1940
9:18 a.m.

HMJr: Hello.

Operator: I have Mr. Myers. Go ahead.

HMJr: Hello.

William
Myers: Hello, Henry.

HMJr: Hello, Bill.

M: Can I bother you a little?

HMJr: I don't know.

M: I've been asked to serve as trustee of this
Associated Gas and Electric reorganization.

HMJr: Yeah.

M: All it means to me is -- probably there's enough
public service to equal a headache -- but.....

HMJr: How about the salary?

M: Well, that's it -- I could -- if I take it for a
couple of years it would -- it would help in putting
me -- you know I don't have much.

HMJr: Yes.

M: And the salary is fifty.

HMJr: How much?

M: Fifty.

HMJr: Very nice.

M: And you'd get about fifteen of that -- or you and
the state.

HMJr: I see.

M: So I could save some.

HMJr: Are they offering it to you exclusively?

- 2 -

M: No, there are three of them. They're talking -- Henry Harriman has accepted.

HMJr: Henry Harriman.

M: Yes.

HMJr: I see.

M: Do you know him?

HMJr: Well, I know him very slightly.

M: And they're talking John Hanes for the third.

HMJr: I see. Who is "they", Bill?

M: Well, Judge Vincent Libell called me from New York Sunday.

HMJr: I see.

M: And Senator Bob Wagner called me and said he did it only as Libell's friend to urge me to take it.

HMJr: I see.

M: Do you see any danger in it?

HMJr: For whom?

M: Me.

HMJr: (Laughs) No, I don't see any danger in it.

M: You know what I mean, is there any dirt in there that would hurt the institution -- hurt Cornell or.....

HMJr: Well I really -- I -- I wouldn't know, Bill.

M: Well, I -- I wondered if, as my friend, you'd give me your slant on whether you think it would be.....

HMJr: Well, it's a perfectly honorable position, if that's what you mean.

M: Well, there might be some trouble in there that I didn't know about that.....

- 3 -

- HMJr: Well, not once the court appointed you. It's a perfectly honorable position.
- M: Yeah.
- HMJr: And I -- as far -- I mean, anybody can take it -- I mean, as far as the company is concerned I don't suppose there was a more mis-managed company.....
- M: I know that.
- HMJr:than -- than this one.
- M: Yeah.
- HMJr: And -- so, but after all when you go in as a receiver you don't inherit the bad management and possibly -- I don't know whether it was criminally managed or not, but that's.....
- M: Yeah.
- HMJr: But the grand jury is going to look into that.
- M: Yeah. Libell sounded good. Do you know him?
- HMJr: I know of him and -- and he has always treated the Treasury very well.
- M: He -- he's thought of as a good Judge?
- HMJr: Yes.
- M: Would -- would the political implications be serious?
- HMJr: What do you mean by that?
- M: Well, he's a Democratic Judge.
- HMJr: Well, I mean it's -- it's -- I think it's going to be sort of considered a "plum", if that's what you mean.
- M: Yeah.
- HMJr: See?
- M: Yeah. And I'd have to give value received?

- 4 -

HMJr: Oh, I don't know, Jim -- Bill. Not coming from the Judge. No; he's a highly honorable person.

M: Yeah.

HMJr: No, he's a highly honorable person. But -- and all of our dealings with him have been only the best.

M: Yeah.

HMJr: And -- only the best -- I mean, he's been one of the best Judges the Treasury has had in his cases that appear before him.

M: Yes.

HMJr: And -- but I think you ought to know that when we appear today before the Judge we're going to recommend S.E.C.

M: Well, I -- that suits me.

HMJr: Because.....

M: Henry, I tell you the way I feel about it. I've been away so much it's -- it's about -- if I flopped a quarter and it stood on the edge that's how I feel.

HMJr: No, well the point -- I mean -- you may not have seen it. Two weeks ago when they asked me who I'd like to see appointed by the court I said S.E.C.

M: Yeah.

HMJr: I don't know whether you saw that or not.

M: No.

HMJr: And.....

M: Oh yes, I did too.

HMJr: And -- well, I made that statement two weeks ago, and when our men appear before the Judge again we're going to make the same recommendation. Now what he does I don't know. He -- I've had no communication with the Judge.

- 5 -

M: Yeah.

HMJr: But as far as Cornell is concerned -- I mean, it's like any other receivership. I mean, when a man goes in he -- he starts fresh.

M: Sure.

HMJr: And fifty thousand dollars is fifty thousand dollars.

M: Well, I could save a little and that's the only -- that's the only reason I'd go in.

HMJr: The reason I'm sort of -- I'm surprised that the court is going to pay three men each fifty thousand dollars.

M: Well, that sounds a little screwy to me.

HMJr: It -- it sounds like a lot of money.

M: Yeah.

HMJr: But -- I don't know whether I've answered you what you want or not, but that's.....

M: Well, I'm not a bit enthusiastic about it.

HMJr: Yeah.

M: And feeling that way I'd just as soon turn it down as not.

HMJr: Has Jesse Jones spoken to you about it?

M: No.

HMJr: Uh-huh.

M: Apparently Wagner had talked with Eccles. I don't know whether he talked with Jones or not.

HMJr: I see. Is Eccles interested in this?

M: I don't know. Apparently, somehow. He's interested in the Cosmos, isn't he?

HMJr: What's that?

- 6 -

M: He's interested in everything.

HMJr: Oh, well I didn't know that he was interested in this.

M: Well, I don't know that he is either.

HMJr: Well, was it Eccles who suggested you to Judge.....

M: I don't know. The -- I got -- Libell simply said that he'd heard about my work in Farm Credit and they wanted to get some people who -- whose judgement would be respected.

HMJr: I see.

M: Of course that's a nice line. I have no qualifications; I don't want to go into business; and I'd take it purely as an honorable means of saving a little money.

HMJr: Well, that's perfectly -- nobody can be franker than that.

M: But I -- I don't want to -- well, I just -- I've bothered you enough and you've given me exactly what I wanted.

HMJr: No, I mean -- I want to -- I don't want to leave any doubt in your mind that when Judge Libell gives you this that there are any strings attached to it because the person -- he's a very high-class man.

M: Yeah.

HMJr: And in receiving it -- I mean, I think your only duty would be to the court.

M: Yeah. And then if any contributions you wanted to make those are just in the general line of public service.

HMJr: Contributions of what kind?

M: Oh, political.

HMJr: Well, I -- I wouldn't know anything about that.

M: I know you wouldn't.

- 7 -

- HMJr: No, I -- I've never done that. That's the kind of business I'm not mixed up in.
- M: I know it, and you've.....
- HMJr: No, I wouldn't know anything -- I've never ever even.....
- M: Well, that's small potatoes.
- HMJr: Well, I haven't even ever gotten into a thing like that.
- M: Yeah. Well, thanks a lot.
- HMJr: O. K., Bill.
- M: You'd rather have somebody else, but if they're going to appoint three.....
- HMJr: Well, I -- I tell you, Bill, it's a very complicated situation.
- M: Yeah.
- HMJr: And I've said the S.E.C. and rather than get mixed up in the personalities, because a lot of people -- the Treasury is going to stick to recommending the Board and that's, as far as we're concerned, we feel is an out for us.
- M: I see.
- HMJr: And there are so many personalities and so much typical Washington going on that I feel that that's the only course I could pursue and it's safe from our standpoint because we know we get our money.
- M: Well, the last thing in the world I wanted from you, of course, was any push. I wanted -- I wanted to get, as your friend, your judgment on whether it would -- it might be.....
- HMJr: Well, the only reason I've been able to last as long as I have, I've always dealt all my cards face up.
- M: Right.

- 8 -

HMJr: And I'm telling you we recommended this two weeks ago and on account of all the backwash we're going to stick and recommend S.E.C.

M: Yeah. You think that their regulations wouldn't be too difficult?

HMJr: Oh, that I don't -- no, I know very little about that.

M: Thank you, Henry.

HMJr: Good luck.

M: Goodbye.

February 6, 1940
11:36 a.m.

Wm. H.

McReynolds Good morning, sir.

HMJr: What the hell do you want now?

McR: (Laughs) How did you know I wanted something.

HMJr: How are you?

McR: Pretty good, thank you.

HMJr: Yeah.

McR: Did you have a comfortable weekend?

HMJr: Yes, very interesting.

McR: I have something that the President has put up to me that involves the handling of this colored question, and sometime if you have ten minutes to spare I'd like to have your advice on it, sir.

HMJr: Oh-oh.

McR: (Laughs)

HMJr: Well now I tell you, Mac, them's -- these are busy days.

McR: Yeah, I know it.

HMJr: If you could get to the house at 8:15 tomorrow morning.....

McR: I'll be there.

HMJr:and don't do what Sullivan did this morning. He didn't show up and his excuse was not his mother-in-law, but he ran out of gasoline.

McR: Oh-oh. (Laughs) You know, Johnny is quite a boy.

HMJr: So put in a little gas tonight and be there tomorrow morning at 8:15.

McR: Yes. You know the last time I came up there you didn't have to wait for me.

- 2 -

HMJr: What color is this color question?
McR: (Laughs) Well, it's.....
HMJr: All right.
McR:dark brown.
HMJr: O. K. All right.
McR: Thank you.
HMJr: When you ask me for help it's a big day for me.
McR: Well, I need your help.
HMJr: O. K.
McR: Right. Goodbye.

February 6, 1940
5:07 p.m.

HMJr: Captain, will you please explain to me why my plane number 18 isn't going to be ready the middle of February the way everybody has been telling Mr. Gaston and me?

Capt.
Chalker: Why the answer on that, sir, is this: Everything was taken care of insofar as the Coast Guard was concerned with the -- with the Navy, giving them that one small change in there with interior arrangement, and up to about day before yesterday our understanding was that the plane would be delivered on the 13th of February. Then I had your inquiry which came down here from -- which was telegraphed in, and I immediately called up Commander Richardson over in the Navy Department to check up on it, and he told me that the 13th was the date. Well, I had seen the letter from Burke which made me think differently and I asked him to check up and he looked through the last progress report which they had and he said it was the 13th but in order to make certain he would send a telegram out to their inspector in Santa Monica and would let me know the answer today.

He called up.....

HMJr: Well I know all that. The answer is you haven't followed this thing through; you've let somebody pull the wool over your eyes, and I'm not going to get the plane in sixty days. That's the answer. And here I am sitting here, Secretary of the Treasury, and Coast Guard with an aviation section and can't even get a plane through. I -- I -- to me, I thought that I had Coast Guard fixed so that they could go through and carry a message to Garchia. Instead of that you sit there in your office; you take somebody else's word; and I don't get the plane. And the President of the United States signed this order last June, and ever since that Coast Guard has not followed this thing through; they've taken the Navy's word -- but the Navy has got a lot of things to attend to, and you people haven't.

C: The -- the only thing is, Mr. Secretary, we -- the Navy is the one who is handling all the purchase on that and.....

- 2 -

HMJr: I know.

C:we have to work through them.

HMJr: And you sit there with two men in the plant and you can't even get a little order through. If somebody asked.....

C: Well they.....

HMJr:Mr. Gaston you could get this thing through in a day.

C: The -- the two men that are out there in the plant we sent out thinking that the -- that the plane would be ready. They were sent out there to make the installations and we asked them when they got out there to let us know what was -- what the facts were, and we got a letter through Burke. He was over here at the time and I discussed it with him, sending the men out and asked them to let us know as soon as they got out there what the conditions were.

HMJr: Captain, the fact remains I won't get the plane for at least two months after I have been promised it by Coast Guard and nobody in Coast Guard told either Mr. Gaston or me that there was any delay in -- in the Navy Department.

C: Well, we didn't know of that ourselves, sir, and they -- they didn't.....

HMJr: Well, you could find it out. I can find it out in -- in five minutes from the representative of Lockheed. All I've got to do is to ask him and he says he's sitting here waiting.

C: Well, we.....

HMJr: You know I haven't been around the Treasury for six years -- don't try to give me a lot of alibis. I mean, it's no use.

C: Well I'm not trying to alibi, Mr. Secretary.

HMJr: Well the fact is, I'm sitting here and I'm going to sit here for another couple of months and I'm not going to get a plane, and you fellows have just sat there and you haven't done anything about it. And

- 3 -

you've got two men out there in the plant and I'd like to know what they're doing.

- C: The two men that are out there in the plant are two enlisted men ordered to report to the inspector and they are there for the purpose of insisting -- assisting in the installation of the radio.
- HMJr: Well, haven't you got -- hasn't Coast Guard got an inspector out there?
- C: No, sir. That -- that's handled entirely by the Navy.
- HMJr: But what about this little order of change?
- C: That little order of change we sent through on November the 4th.
- HMJr: And you've been sitting there in your desk and -- since November 4th and here it is the 6th of February and you haven't said a word.
- C: The -- the only information on it we get we have to handle through the Navy Department.
- HMJr: All right. All right. Well, forget it. I don't work that way, I'm sorry.
- C: Well, I'm sorry.....
- HMJr: If I -- If I had -- if I gave that kind of service to the President of the United States, I wouldn't be Secretary of the Treasury one day.
- C: If we had the authority, sir, to go ahead and -- and handle the thing direct, you would have had your plane by now.
- HMJr: You've got plenty of authority to ask Admiral Waesche to talk to Mr. Gaston and tell him that you're not going to get the plane on time.
- C: Well, I -- I told the -- I talked to the Commandant on the -- on that matter.
- HMJr: When?

- 4 -

C: Yesterday, I think it was, when I found out.....

HMJr: Sure, when I -- when I stirred this thing up.
I'm very much displeased and I'd like to discontinue
this conversation.

C: Very well, sir.

HMJr: Good night.

C: Good night, sir.

TREASURY DEPARTMENT

369

INTER OFFICE COMMUNICATION

DATE Febr. 6, 1940

TO Secretary Morgenthau

FROM Mr. Haas 

An increase of 22,000 in the number of persons employed by them is reported by the Works Projects Administration, from 2,222,000 during the week ended January 17, 1940 to 2,244,000 during the week ended January 24, 1940.

Attachments

WORKS PROJECTS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

370

Week Ending	Number of Workers (In thousands)
1939-40	
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
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	2,082
August 9	2,054
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,189
January 17	2,222
January 24	2,244

Source: Works Projects Administration

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

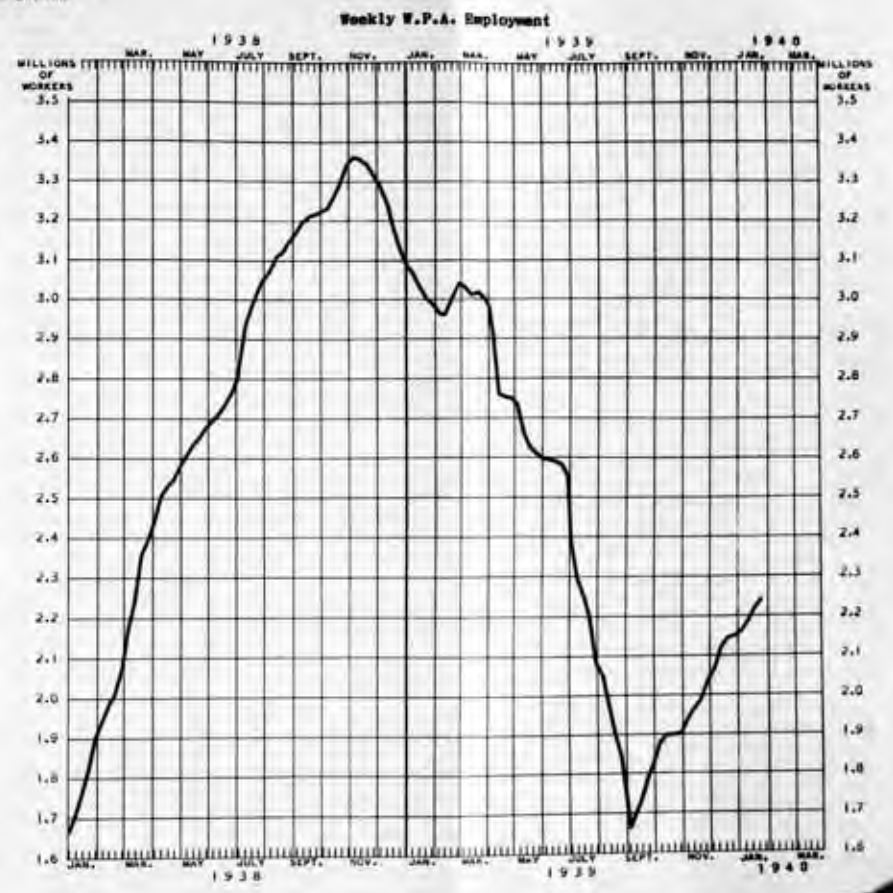
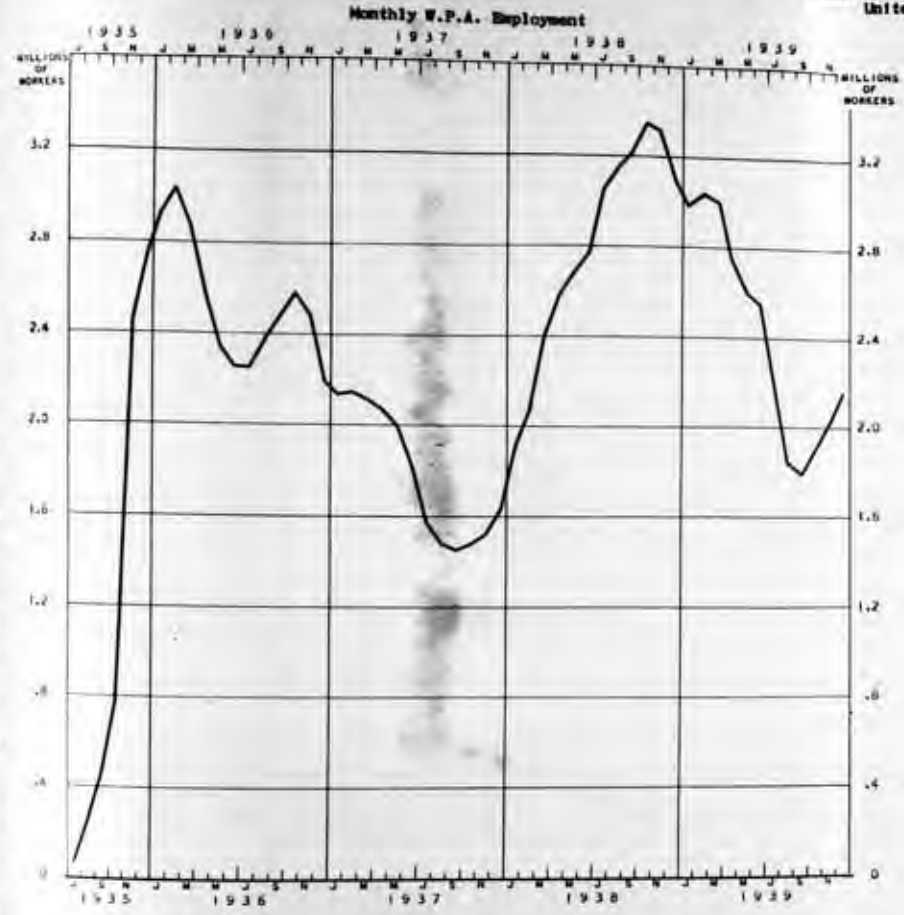
	Number of Workers (In thousands)
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,901
November	2,024
December	2,152

Source: Works Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified 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

Personal message from the Chancellor
of the Exchequer to the Secretary of
the Treasury.

I should like to add a personal word to the message about our dollar position which you will by now have received. The responsibility which rests primarily on me, of seeing that our gold and dollar resources are husbanded in such a way that we can if necessary face a long war, is a very grave one, and I particularly welcome the help and advice which you give to M. Paul Reynaud and myself. I know that, in order to give us your help, you need from us the fullest information which we can give you, and you may be sure that at all times it is my wish to keep you very fully informed. Whatever information you desire will be gladly supplied, but I know that you will understand that the uncertainties of war make it impossible for me to have at this time anything like a final picture of what our dollar requirements are likely to be, or any cut and dried plan of how they can best be covered. As regards our holdings of United States securities, of which you have full particulars, my desire would be to realise steadily, without forcing the pace to an extent which would result in a serious break in prices.

White 374
C O O + ✓



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
TA 611.3731/2257

February 6, 1940

My dear Mr. Secretary:

I wish to thank you for your letter of January 24, 1940, regarding the work of the Treasury Department in connection with trade agreements.

I have brought your letter to the attention of the Division of Trade Agreements, and I wish to assure you that those persons in this Department who are concerned with the trade-agreements work will do everything possible to facilitate the work of the Treasury Department in this connection.

Sincerely yours,

Henry F. Grady
Henry F. Grady
Assistant Secretary

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

TREASURY DEPARTMENT
WASHINGTON

February 6, 1940.

MEMORANDUM FOR THE SECRETARY:

Re: Reduction of Force, Procurement Division, Washington, D. C.

It will be necessary to dismiss, or at least furlough, a large number of persons employed in the Procurement Division in Washington, D. C., between now and June 30.

These are persons compensated from the emergency-relief appropriation, but employed upon functions not related to emergency relief.

We have been put on notice that the emergency-relief appropriation act for 1941 will contain the following proviso:

"No employees shall be paid from relief funds who are engaged in work of the Treasury Department not incident to relief."

The number of employees of the Procurement Division in Washington is as follows:

Employees compensated from regular funds...	634
Employees compensated from emergency-relief funds.....	<u>712</u>
Total.....	<u>1,346</u>

The distribution of the above personnel as between regular work and emergency work is approximately as follows:

Employees assigned to regular work.....	1,126
Employees assigned to emergency-relief work.....	<u>220</u>
Total.....	<u>1,346</u>

This shows an excess of emergency-relief employees, beyond the needs of the emergency-relief program, as follows:

Total number of emergency-relief employees.....	712
Total number assigned to emergency-relief work.....	<u>220</u>
Excess, assigned to regular work.	<u>492</u>

Memo. for the Secretary--2.

The 1941 Treasury appropriation bill as passed by the House makes provision for an increase of 100 in the number of regular positions. Provision for a further increase of 112 positions was struck from the bill by the House, but may be restored wholly, or in part, by the Senate. It is believed that authority can be secured to transfer qualified employees now compensated from emergency-relief funds to whatever number of additional regular positions may finally be included in the bill--between 100 and 212, as here stated.

The number of emergency employees to be dismissed or furloughed will therefore be 492, less whatever number of additional regular positions may finally be provided in the Treasury bill for 1941. The number to be released will be at most 392, and at least 280.

These figures take no account of possible reductions of force which may be necessitated by a reduction in relief expenditures. Should the Government's relief program for 1941 be reduced below the 1940 level, the number of employees to be released will be larger than here shown.

The Procurement Division will have to be reorganized, its policy changed, and its work cut down, to meet this reduction of force. In my opinion, this can readily be done, and without diminishing the value of the Division to the Government. In fact, I believe that such a reorganization and change in policy should in any case be made, to open the way for the Division to function as was originally intended, as a centralized agency to oversee the purchasing operations of the Government as a whole.

The Procurement Division has never had more than a small appropriation to support its permanent and regular functions. With its limited funds, it would have been wise to concentrate upon the extension and improvement of the term-contract system which has long been in vogue for the procurement of supplies and equipment in common use by all Government branches, and to make fact-finding studies and surveys calculated to lay a foundation for economical buying. The mistake was made, however, of assuming that it was intended for the Procurement Division to become itself the exclusive purchasing agency for all the permanent branches of the Government, and of beginning operations upon this assumption notwithstanding that no regular appropriations were available to support them. It was of course possible to make such a beginning by employing the necessary personnel from emergency funds--and this irregular expedient was adopted.

Financing itself largely in this way, the Procurement Division now does substantially all the buying, big and little, for the various bureaus of the Treasury Department in the District of Columbia, for the Federal Security Agency, and for the Federal Works Agency. It does virtually no buying for other permanent branches, as will be plain from the fact that about 85 per cent of all its purchases in the District of

Memo. for the Secretary--5.

Columbia are for the three organizations named. For the other permanent branches, practically speaking, its sole purchasing service is in supplying fuel and in making indefinite-quantity contracts for such commodities as gasoline, automobile tires, and office supplies and equipment, which are of course equally available to all departments.

The bulk of the direct buying done by the Procurement Division for the few permanent branches which it undertakes to serve under the present policy, is in small-lot or retail quantities. In November, 1939, it made 9,602 purchases, exclusive of purchases for emergency-relief projects and purchases to replenish warehouse stocks. Of this number, 3,657, or 38.1 per cent, were in amounts of \$5 or less; 4,920, or 51.2 per cent, in amounts of \$10 or less; 6,524, or 67.9 per cent, in amounts of \$25 or less; 7,712, or 80.3 per cent, in amounts of \$50 or less; and 8,459, or 88.1 per cent, in amounts of \$100 or less. Moreover, 6,571, or 68.5 per cent, of the total number of purchases made were under term contracts, where obviously no price advantage could accrue to the consumer departments by using the Procurement Division to do the buying.

It is proposed immediately to make the following changes in the policy and program of the Procurement Division so far as applicable to the supply requirements of the regular branches of the Government as distinct from emergency-relief agencies:

1. The Division will hereafter, except as may be specifically requested, make no purchases under term or indefinite-quantity contracts, but will allow this to be done by the several departments and establishments for themselves. It will immediately give back this class of buying to the agencies which it now serves (chiefly Treasury, Federal Security Agency, and Federal Works Agency).

2. The Division will hereafter, except as may be specifically requested, make no purchases of any character in amounts of \$100 or less, but will allow purchases within this limit to be made by the several departments and establishments for themselves. It will immediately give back this class of buying to the agencies which it now serves.

3. The Division will make no purchases of highly specialized supplies, materials and equipment--that is, articles required by particular services for technical purposes, but will leave such purchases to be made by the departments and establishments for themselves. (A good illustration of this is the purchase of distinctive paper for currency manufactured by the Bureau of Engraving and Printing.)

Memo. for the Secretary--4.

The effect of this change in policy will be to take the Procurement Division out of the field of buying in retail quantities, and leave it to function only with respect to relatively large-scale business. Considering those purchases which are made by the regular establishments of the Government, this change will cut down the number of transactions undertaken by 95 per cent. Considering all purchases--those made for emergency-relief projects and for warehouse purposes as well as those made for the regular establishments, it will cut down the number of transactions undertaken by 78 per cent. There will be no lessening of the value of the service rendered to the Government as a whole.

A reduction of these proportions in its work load will make it possible for the Procurement Division to reduce its personnel to conform to the appropriations made and to eliminate the emergency-relief personnel now improperly employed upon permanent functions.

It is proposed, in accordance with your instructions, to attempt gradually to extend the scope of Procurement Division operations to cover those branches of the service which now do their own buying, this extended service to be financed out of funds to be secured by transfer from the operating departments and bureaus. Our present plan is for the Procurement Division to take over the buying operations for the non-military branches in the District of Columbia by July 1, next, assuming that we will be able to complete arrangements for the transfer of the necessary funds. In doing this, we propose to adhere to the three restrictions above outlined.

Harold Graves
GRAVES.
Green
Arthur Hanson
owdell

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• Prepared by: Mr. Marohy
Mr. Lindow
Mr. Tiekton
Mr. Bass

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE February 6, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Developments in the High-Grade Securities Markets

SUMMARY

- (1) The prices of United States Government securities fluctuated within a narrow range last week. The average yield on long-term Treasury bonds was 2.32 percent on Monday, a decrease of one basis point from the previous Monday.

The maturity on January 31 of the last of three enlarged Treasury bill issues of \$150 millions each has reduced the supply of Treasury bills outstanding to the level of last October. Practically the entire decrease in volume occurred in the portfolios of holders other than weekly reporting member banks (Chart I).

- (2) The average yield on high-grade corporate bonds was 2.81 percent on February 5, the same as on January 29. Municipal bond prices fell in the week ended February 3 (Chart II). The volume of new bond offerings declined again last week.
- (3) Excess reserves of member banks declined by \$30 millions in the week ended January 31 from their all-time high of \$5,590 millions made the previous week.

Since the end of 1932, total reserves of member banks have increased by \$9.6 billions, and excess reserves have increased by \$5.0 billions. About 92 percent of the increase in funds available for bank reserves during the period is accounted for by the growth of monetary gold stock (Chart III).

- (4) A rise in the price of British 2-1/2 percent consols and a decline in the price of French 3 percent rentes since the first of the year has brought these securities back to the level of July 1938. During the intervening period consols and rentes followed divergent courses (Chart IV).

Secretary Morgenthau - 2

I. United States Government Securities

United States Government securities fluctuated within a narrow range during the week ended Monday, February 5. At yesterday's close the average yield on long-term Treasury bonds was 2.32 percent as compared with 2.33 percent a week earlier.

The price decline which commenced January 24 reached a low on Tuesday, January 30. The relative movements from January 24 to January 30, and from January 31 to February 5, are shown by maturity classes in the following table:

	Average price change	
	January 24 - January 30	January 31 - February 5
	(In thirty-seconds)	
<u>Notes</u>		
1 to 3 years	- 1	- 1
3 to 5 years	- 4	+ 5
<u>Bonds</u>		
Under 5 years to call . . .	- 4	+ 1
5 to 15 years to call . . .	- 14	+ 6
15 years and over to call .	- 16	+ 7

The last of the three enlarged issues of Treasury bills, amounting to \$150 millions each, matured on January 31. The supply of bills outstanding has thus been brought back to the level of last October, before the three weekly offerings of \$150 millions were made. Weekly reporting member banks held, at the close of business January 31, almost the same amount of Treasury bills as they did three weeks earlier before the run-off of the extra \$150 millions (Chart I). It appears, therefore, that practically all of the net decrease for the three weeks occurred in the portfolios of holders other than banks. (Banks, other than weekly reporting member banks, are not important holders of Treasury bills.)

Secretary Morgenthau - 3

II. Other Domestic Securities Markets

Corporate bonds declined in price on Wednesday and Thursday of last week, but recovered on Friday. The average yield on high-grade corporates, which moves inversely to prices, was 2.81 percent on Monday, February 5, the same as on January 29.

Municipal bond prices last week continued their decline from the all-time high reached in the week ended January 6. The Dow-Jones average yield on twenty 20-year bonds increased seven basis points to 2.64 percent in the week ended Saturday, February 3 (Chart II).

The volume of new bonds publicly offered in the New York market declined last week for the third consecutive week. The total for the week was only \$5 millions, all of which was in the municipal field. A substantial increase in new issues is reported to be in prospect for the current week, however. Temporary financing last week included \$3 millions of City of Boston 0.22 percent notes due November 4, 1940.

A syndicate headed by John Nuveen and Co. purchased last week from the RFC \$5 millions of State of Mississippi 3-1/2 percent bonds maturing serially from 1950 to 1954, and reoffered them at prices to yield from 2.60 percent to 3.00 percent.

R. H. Macy and Company, Inc. and L. Bamberger and Company sold privately to The Prudential Insurance Company \$5 millions of their joint and several 2-1/4 percent notes maturing in equal annual instalments from 1943 through 1950. The proceeds were used to redeem outstanding notes.

III. Excess Reserves

Excess reserves of member banks declined by \$30 millions during the week ended last Wednesday. On the previous Wednesday (January 24), they had reached an all-time high of \$5,590 millions. This all-time high exceeded the previous high mark set on October 31, 1939, by only \$37 millions. During the intervening period, excess reserves first fell and then rose by nearly three-quarters of a billion dollars, due in large part to seasonal factors.

The present quantity of excess reserves has been built up almost entirely within the last seven years, and it is interesting to examine the factors which have been responsible. These factors are shown in Chart III, covering the period from December 31, 1932 through January 31, 1940.

Secretary Morgenthau - 4

The left-hand side of the chart shows the gross supply of cash and credit available for bank reserves. The right-hand side of the chart shows both the factors which absorb cash and credit at the expense of bank reserves, and the amount of the bank reserves themselves. The reserves are, in turn, divided into required and excess. The dollar amounts of the changes in reserves and in the factors affecting them since the end of 1932 are shown in the following table:

	: Billions : of dollars :
<u>Factors of Supply:</u>	
Monetary gold stock	+ 13.7
Treasury currency	+ .8
Federal Reserve holdings of Governments	+ .6
Other Federal Reserve Credit	- .3
Total increase in factors of supply	+ 14.8
<u>Factors of Demand:</u>	
Money in circulation	+ 2.0
Treasury gold	+ 2.0
Other Treasury cash	+ .6
All other	+ .6
Total increase in factors of demand	+ 5.2
<u>Reserves:</u>	
Required reserves	+ 4.6
Excess reserves	+ 5.0
Total increase in member bank reserves	+ 9.6

About 92 percent of the increase since the end of 1932 in the supply of funds available for bank reserves has been brought about by the increase in monetary gold stock --

Secretary Morgenthau - 5

amounting to \$13.7 billions during this period. Of this, only \$2.8 billions was accounted for by the revaluation under the Gold Reserve Act of 1934 of the then existing gold stock, while the remainder represents an increase in the physical quantity of gold, resulting principally from gold imports, although such imports have, of course, been taken into the monetary stock at the enhanced price.

About 35 percent of the total increase in "factors of supply" during the period covered was utilized for purposes other than bank reserves. The most important of such other purposes were increases in money in circulation and in "Treasury gold" -- accounting between them for about \$4.0 billions.* This is shown by the lower area on the right-hand side of the chart.

As a result of the much greater increase in "factors of supply" than in "factors of demand", total member bank reserves increased by \$9.6 billions during the period.

Member bank deposits subject to reserve have increased by about \$17 billions since the end of 1932. The proportion of member bank deposits legally required to be held as reserve has been increased by about 70 percent. As a combined result of these two influences, required reserves have increased by \$4.6 billions during the period. The remainder of the increase in total reserves -- \$5.0 billions -- has gone to build up excess reserves to their present record level.

IV. Movements of British and French Government Securities Since July 1938

British 2-1/2 percent consols experienced only slight variation during the week just ended, closing on Monday, February 5, at 73-3/4, the same price as a week earlier. French 3 percent perpetual rentes closed yesterday at 73.90 as compared with 74.25 the previous Monday.

Since the first of the year, British consols have risen 5-1/2 points in price and French rentes have fallen 2.35 points. As a result of these movements, each is now standing at almost exactly the same level as it did in the summer of 1938 just before the Munich crisis. This is shown in the following table:

*The increase in "Treasury gold" is accounted for principally by the segregation in the Stabilization Fund of \$1.8 billions of gold. This much of the profit arising from the revaluation of the dollar has thereby been "sterilized" and so prevented from increasing bank reserves.

Secretary Morgenthau - 6

	Prices		Yields	
	July 1 1938	Feb. 5 1940	July 1 1938	Feb. 5 1940
2-1/2 percent consols	74-5/8	73-3/4	3.35	3.39
3 percent rentes	74.95	73.90	4.00	4.06

Consols and rentes have pursued very divergent paths, however, during the intervening period (Chart IV).

The trend of consol prices was steadily downward from the summer of 1938 until the outbreak of war in September 1939, interrupted only by two sharp breaks and recoveries at the times of the Munich crisis in September 1938 and the Czechoslovak crisis in the spring of 1939. Since the first week in October 1939, a recovery -- concentrated principally in two spurts -- has brought consols back to the level of the early summer of 1938.

Rentes, on the other hand, rose sharply from the summer of 1938 to the end of that year. Their break at the time of the Munich crisis was somewhat smaller than that experienced by consols. At the end of 1938 and again about the time of the Czechoslovak crisis in the spring of 1939, the yield on rentes was actually below that on consols.

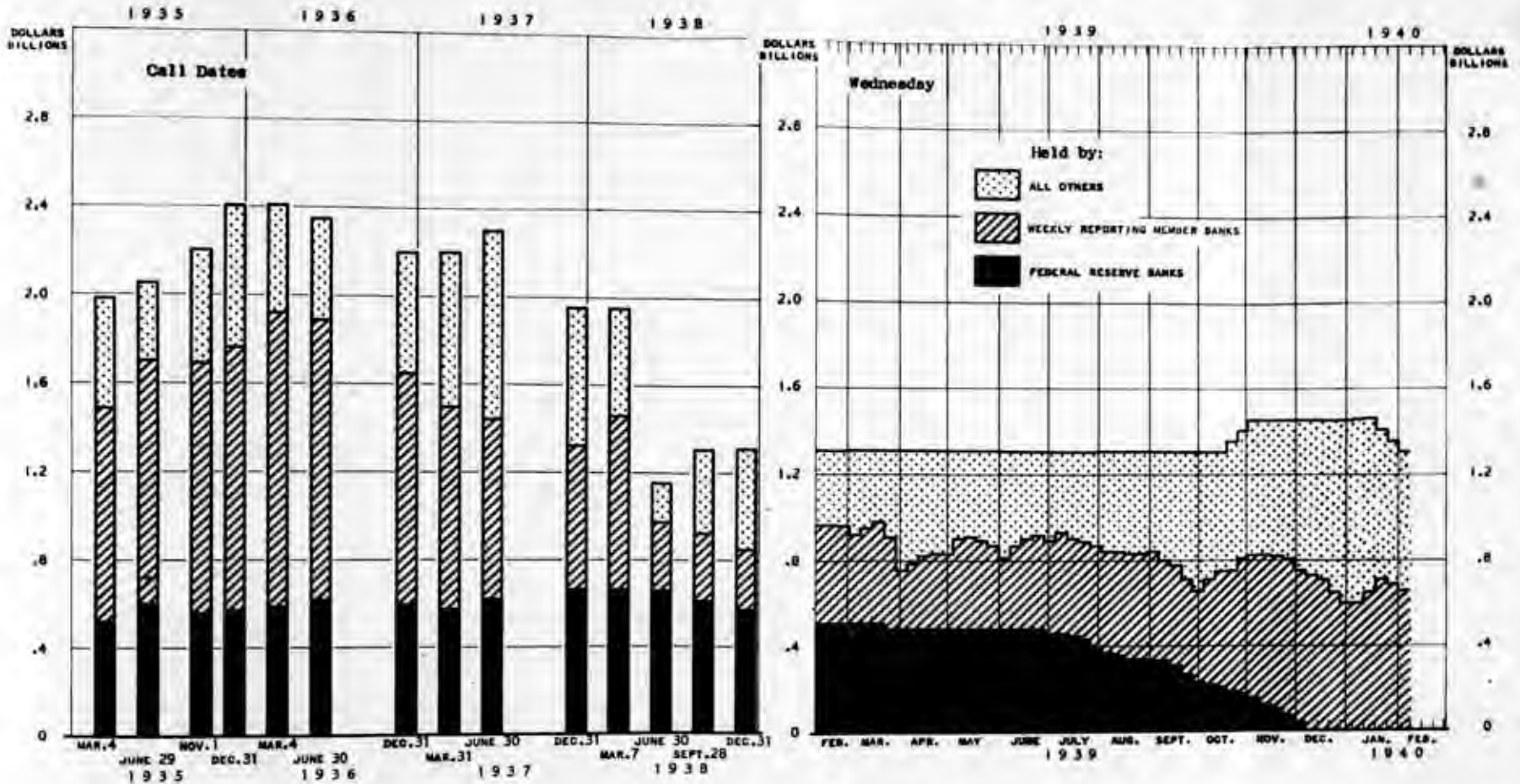
The decline in the price of rentes from March to early August 1939 was somewhat greater than that of consols. Rentes also suffered a greater decline than consols at the outbreak of war, but it must be remembered that minimum prices were in effect on the London Stock Exchange while no such control is known to have existed on the Paris Bourse.

The recovery of rentes last autumn lagged almost a month behind that of consols, but by the end of the year rentes had risen further from their lows than consols and stood much better relative to their July 1938 position. Their divergent movements since the first of this year have restored them almost exactly to their relative position in July 1938.

Attachments

Chart I

DISTRIBUTION OF OWNERSHIP OF TREASURY BILLS

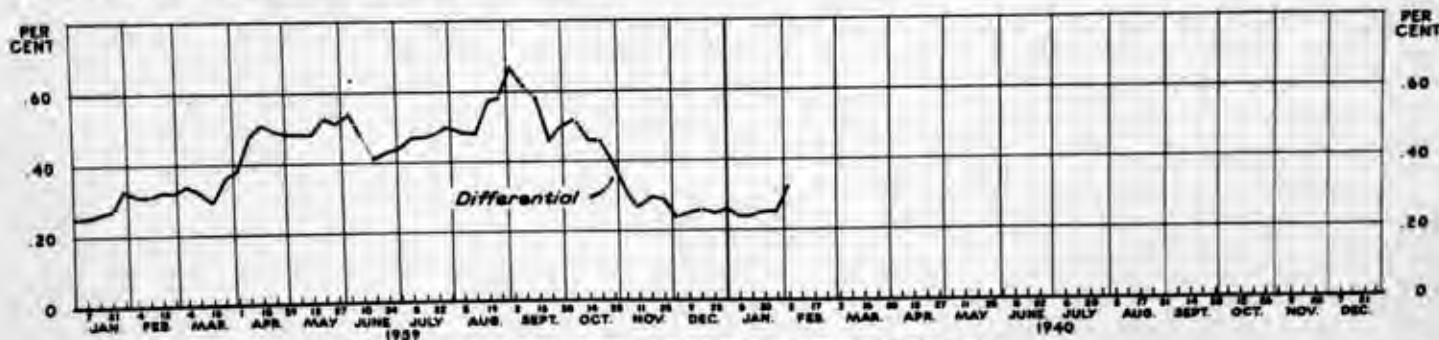
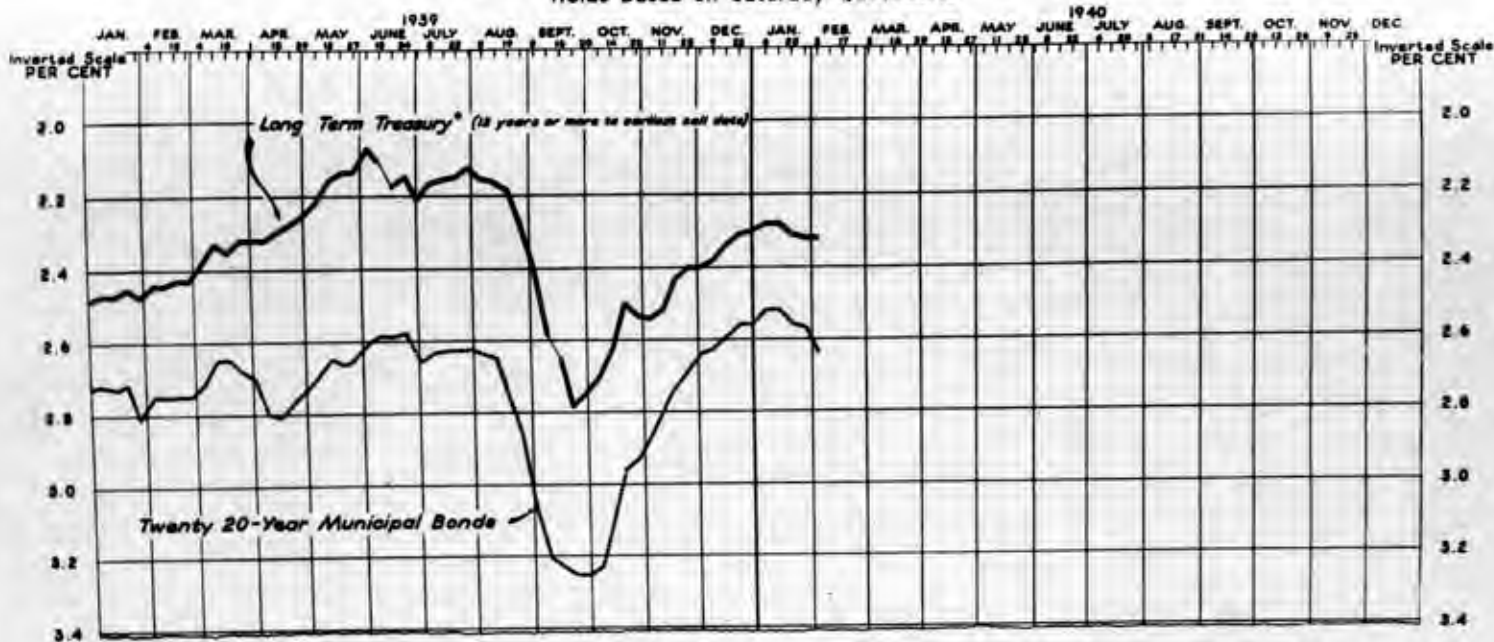


Office of the Secretary of the Treasury
Division of Research and Statistics

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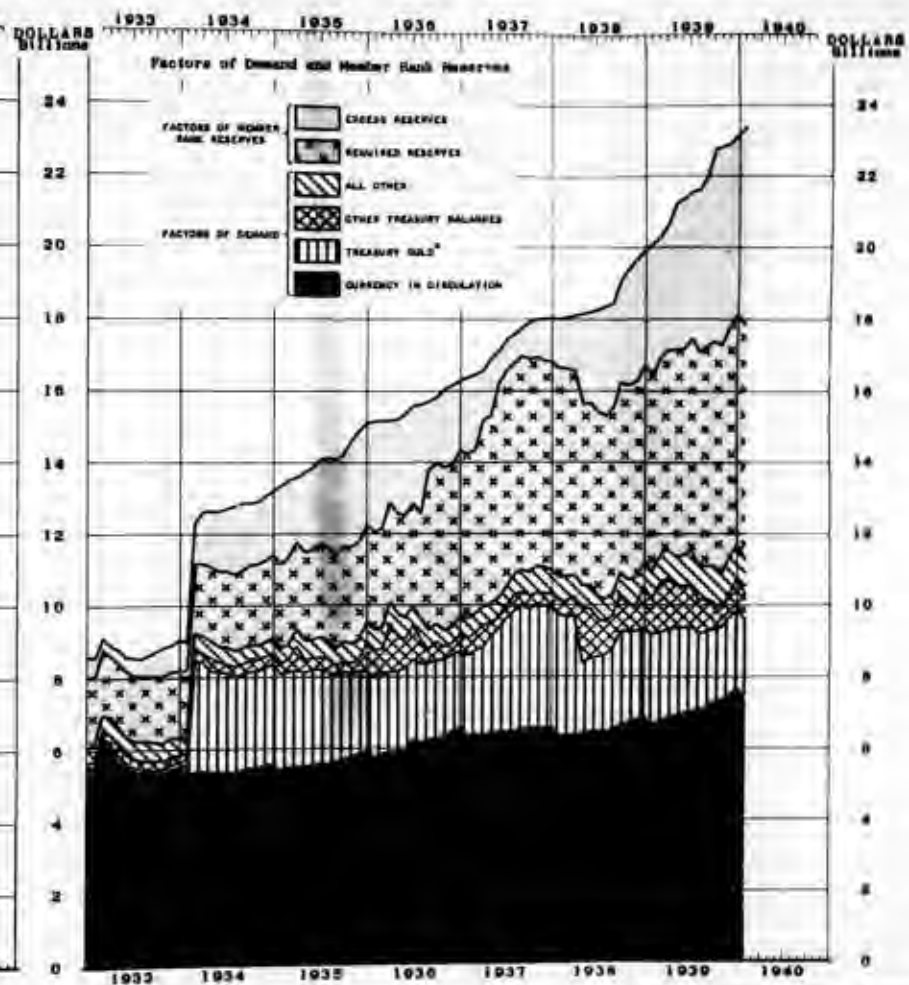
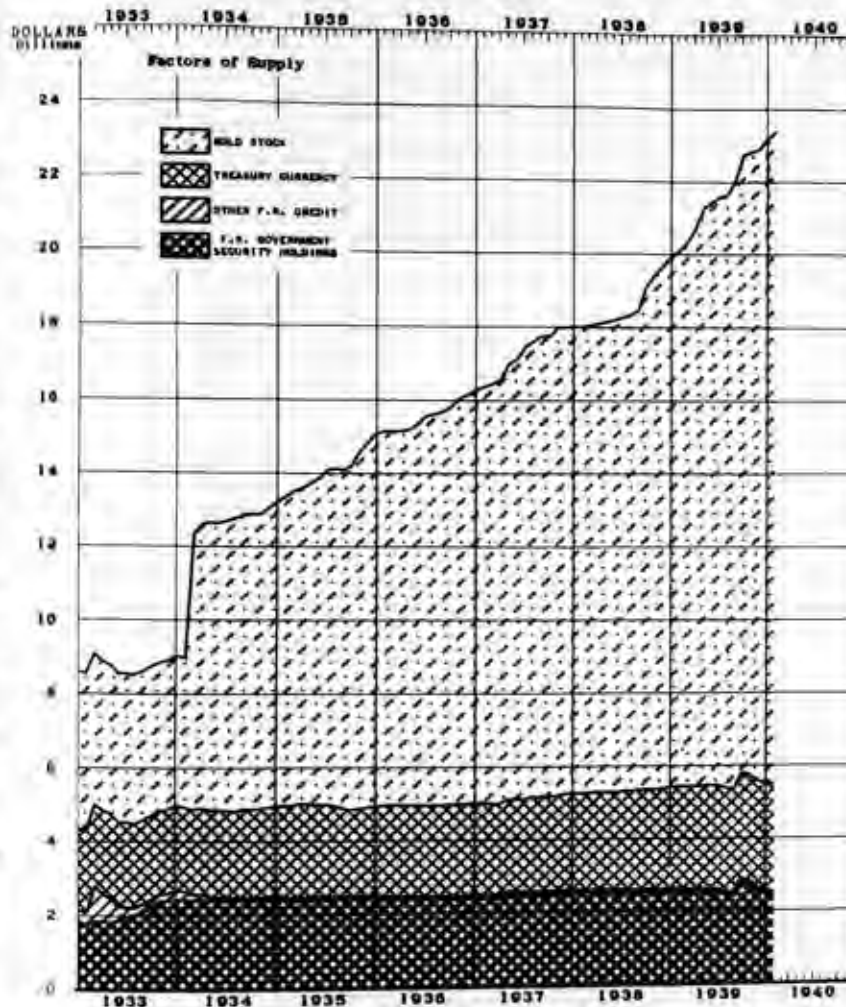
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



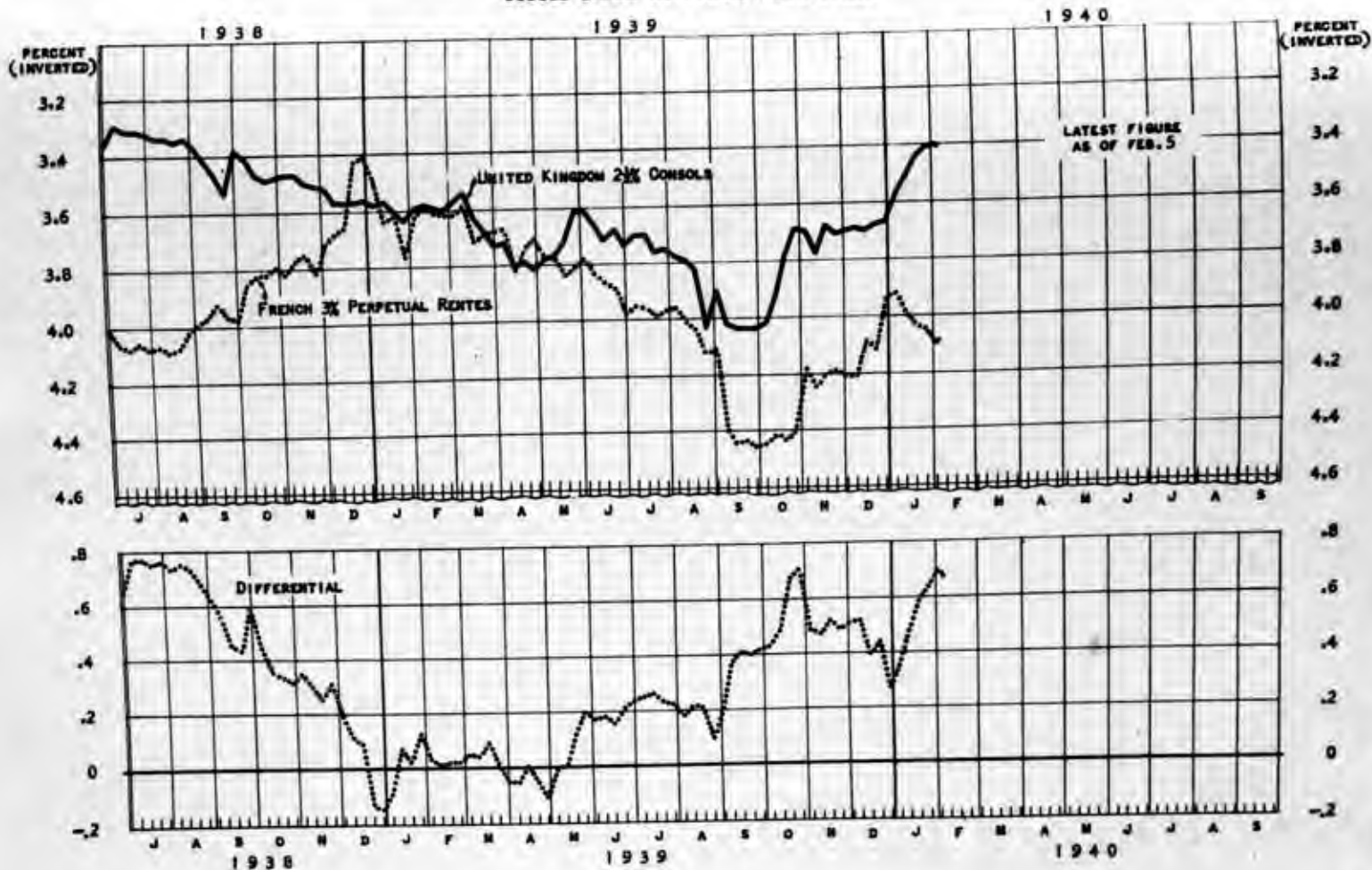
* Break in line indicates change in composition of Long Term Treasury average.

FACTORS AFFECTING MEMBER BANK RESERVES
MONTHLY



*Gold in Stabilization and General Fund.

COMPARISON OF THE YIELDS OF UNITED KINGDOM 2½% CONSOLS
AND FRENCH 3% PERPETUAL RENTES
Yields Based on Friday Quotations



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 6, 1940

TO Secretary Morgenthau

FROM H. Merle Cochran

Mr. Chen called at 11 o'clock this morning. He stated that the first shipment of 500 tons of tin had arrived at San Francisco, and would be trans-shipped to New York by way of the Panama Canal. The plan is to tender 300 tons thereof to the Procurement Division of the Treasury as soon as possible, and have the remainder refined. Chen is pushing the plan for monthly shipments of 800 tons of tin. He is seeing Captain Collins on Wednesday morning, February 7. He plans to be in town a few days. He has nothing to report to the Secretary other than the foregoing, but would still like to say "hello."



GROUP MEETING

February 6, 1940.
9:30 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Cochran
Mr. Graves
Mr. Harris
Mr. Thompson
Mr. Cotton
Mr. Sullivan
Mr. Haas
Mr. White
Mr. Schwarz
Mr. Foley
Mrs Klotz

H.M.Jr: Harold, when you see me at 10:00 o'clock on Procurement, don't you want Collins in?

Graves: Well, it isn't necessary. There is no objection to his coming.

H.M.Jr: Doesn't it affect his --

Graves: It does very vitally affect him, but he and I are in complete accord.

H.M.Jr: I think we had better have him here. I would like Bell and Thompson here at the same time.

Bell, I have got this memorandum from the President. I will read it out loud and give it to you.

"I should like to raise the question of the desirability of taking full advantage of the 1939 amendment to the Social Security Act to reduce the interest cost of the Federal budget and the old age trust funds, both by converting existing special three percent issues, two and a half percent issues, and by purchasing new issues for the fund in connection with refunding operations."

Bell: We went into that, you know.

H.M.Jr: Don't bother me, take care of it.

Bell: I am willing.

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- H.M.Jr: Well, if you want to talk about it, I don't know much about it.
- Norman?
- Thompson: I found the money for the rose garden.
- H.M.Jr: Oh, now that is important. Good. I want two rose gardens and when they say, "Well, what did Morgenthau do when he was Secretary of the Treasury?" "Well, he planted those two rose gardens."
- The rose over there out of your window (Foley's) is going to be the rose known as "Better Times."
- Foley: Fine.
- H.M.Jr: As Mr. Thompson reports, I started too late to get better times. But Foley is there.
- Foley: Waiting to harvest.
- H.M.Jr: That will be very nice. I think it will be very nice and I will walk by here with my grandchildren and I will say, "See what your grandpa did."
- Gaston: There will be one more thing. You will have a statue of the budget balancer, Albert Gallatin, in front of the building.
- Cotton: What kind of roses are you planting?
- H.M.Jr: Better Times.
- White: When will they blossom?
- H.M.Jr: Don't tell me how much it cost.
- Thompson: Not very much. The whole thing is about fourteen hundred dollars, labor and materials included.
- H.M.Jr: Just remember, because it is on that side, that doesn't mean that I can't have roses clipped for my desk. I just don't want Foley to think that that side of the yard is his.

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Gaston: You can have 50 percent.

H.M.Jr: I am like the English, I want two-thirds.
Dan? They are coming in today. When am I seeing the people - Foley and the Commissioner.

Gaston: 10:15, I think, was the time.

H.M.Jr: Oh, what time were you coming in?

Graves: Well, I have not been told any time.

H.M.Jr: Oh, I am sorry. When you go out, tell McKay the very first appointment I make today with anybody else will be with you and Collins.

Graves: Fine.

H.M.Jr: 4:00 o'clock. Will you tell McKay?

Graves: I will.

H.M.Jr: And Collins?

Graves: Yes, I will.

H.M.Jr: What else?

Bell: I have the report on the stabilization fund. Do you want to sign that now?

H.M.Jr: Yes.

Bell: There is one for the President and one for each House.

H.M.Jr: Incidentally, I am expecting a call from the President and if it comes, I am going to have to ask everybody to get out. It may not come. I won't accelerate it, but if it does come, I will have to ask everybody to leave. I have had it in since 9:00 o'clock.

Anything else, Dan?

Bell: There is to be a round table discussion at the Metropolitan Club about the 26th of this month

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on Government debts. This is the second one. The first one was held on railroad securities and investment in railroad securities by banks. They have asked me to attend and I would be inclined not to attend, because it looks as though it might be political in some respects. They have invited Senator Taft and Senator Byrd. Burgess is what they call the moderator.

H.M.Jr: Not too good.

Bell: I don't like it very well and I had rather not.

H.M.Jr: You had better eat at the Treasury and get a good meal.

Bell: It is about a four hour discussion and then they print everything that is said. You have a chance to correct it, but --

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

Bell: Suits me.

H.M.Jr: Anything else?

Bell: You might be interested to know that we made an analysis of the five thousand dollar allotment in December and of the five thousand dollar subscriptions there were twenty-six hundred fifty-seven out of the fifty-eight hundred, almost 60 percent of the subscriptions were for five thousand dollars.

H.M.Jr: Good. Anything else?

Bell: I should like to have about an hour before you go away to clean up some matters, including the June 15 call.

H.M.Jr: 11:00 o'clock Thursday.

Bell: Fine.

H.M.Jr: Herbert, there are conflicting reports on my Lockheed 18. The underground says I am not going to get it for two or three months. Officially, the Navy says I am going to get it

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the middle of February. Will you send for a representative of Lockheed and say if I don't get that Lockheed he doesn't get any more engines? Fifty-fifty.

Sullivan: No pressure.

H.M.Jr: Fifty-fifty. One plane or no engines.

Gaston: The last I heard was that they were going to meet the delivery date, which was February 20, but I will talk to them.

H.M.Jr: Burke has two men out there, you see, watching the plane and they write in that they won't have it for two or three months, but no plane, no engine. That is fair.

Gaston: Fair enough.

H.M.Jr: O. K. Just lika dat.

All right, Dan?

Bell: Yes.

H.M.Jr: Harold?

Harry?

White: We have received a cable (February 1) informing us on February 1 the Italians are going to put into effect the exchange adjustments which will provide the exporters with a long list of export subsidies so that we may expect a good deal of difficulty. We received the list by mail.

H.M.Jr: What country?

White: Italy. We are following that.

H.M.Jr: Does that mean I get my Italian red wine cheaper?

White: Doubtless. I think wine is probably one of the things on the list.

H.M.Jr: Good.

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White: But we will have to put a counter duty on it.

H.M.Jr: If you do it at the same rate you did on silk, I can drink a lot of wine.

White: All right. We have just received a report from two different sources - Mr. Harris received one and we received one - that some molybdenum has just been placed on a boat going to Russia or just about to be placed on it. Now, in view of previous action, I thought you ought to have a little note on it.

H.M.Jr: I think the thing to do is to ask them what part of the contract that is. I would call up the president of Molybdenum and ask him.

White: Who do you want to handle that?

H.M.Jr: Who sat in on that with me?

Cochran: Harry and I were both in on that.

White: Well, Mr. Cochran could do it.

H.M.Jr: Would you do that, Cochran?

Cochran: Yes.

White: I will give him the note.

H.M.Jr: Tell him we got this and we would like an explanation.

White: According to Mr. Harris' report, it was about to be placed on board and ours says it had already been, but we will check up.

H.M.Jr: All right, and be sure you are right.

White: Yes. Then there are some other materials here on shipments to Russia and on this industrial diamond import. I take it that is going to --

Gaston: I have a report here.

H.M.Jr: O. K.

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White: Here is the letter to Noble on rubber and tin (February 6).

H.M.Jr: Well, is that wise to send that?

White: The facts are here and it is moderate in tone. It is going to Noble. I don't know just what - Chick has some arrangements with the Department of Commerce --

Schwarz: I have been awaiting a carbon which they are prepared to give out.

H.M.Jr: Are you worried about it, Norman?

Thompson: No, I'm not.

H.M.Jr: Wasn't that your note on it?

Thompson: No.

H.M.Jr: I thought there was a note on it that you said I shouldn't sign it.

Thompson: Oh, no.

Bell: It came to me and they asked if I wanted to sign it as Acting Secretary and I said no, now that the Secretary was here he ought to see it.

H.M.Jr: Oh, I get you.

Bell: I thought as long as you had been in on it, you would like to see it.

H.M.Jr: That is all right. What else?

White: There was a meeting yesterday morning and the lawyers continued in the afternoon on the final draft of the plans for the Inter-American Bank. They didn't get through. They have another meeting at 10:00 o'clock this morning. Mr. Berle's mother suffered a paralytic stroke and he had called up the day before and had asked me to proxy for him there, but we are not through. They are meeting at 10:00 o'clock. I have a

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copy of the final drafts as they are now. The status is that they clearly understand that these drafts are merely the work of the technical committee cooperating with them and that they in no way commit the Department. Now, I don't know what stage - what you want to do from now on. The procedure will be that it will be accepted by the Subcommittee this morning and be passed on to the larger committee.

H.M.Jr: Let it go.

White: O. K.

Incidentally, our legal staff has done an enormous amount of work on this that doesn't show. They have worked days and mornings and evenings and it really is an awful lot of work.

H.M.Jr: I know they work, but I never know what they are doing.

White: This is one of the things they are doing. It is a very good job, I think.

H.M.Jr: Try to get them at 11:00 o'clock tonight, the way I did last night.

Gaston: They are all asleep then, aren't they?

White: They are all tired out by 11:00.

H.M.Jr: They have a sister sitting up and waiting, "My big brother," and all that sort of thing and I have got to quiet her down and all that sort of stuff and she can't go to bed until they come and it is terrible. Haven't heard from them all evening.

White: There is a letter here to - there is a memorandum here on the effect of the allied purchases. (Feb. 6)

H.M.Jr: Send it out to the house, will you?

White: There is a memorandum on current economic (Feb. 6) developments. You had asked a copy to go to Captain Puleston. He had asked whether

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he couldn't send a copy to the War Department and the Navy Department.

H.M.Jr: Better let me read it first.

White: You didn't see this one yet.

H.M.Jr: No.

White: There is a letter here to Mrs. Roosevelt (February) and I didn't check this with anybody.

H.M.Jr: Give it to Mrs. Klotz.

White: These others can go through routine. They are weekly reports of one kind or another.

H.M.Jr: Basil?

Bell: You saw in Mr. Cochran's report that we were getting five million in gold directly from Russia?

Cochran: It comes in today at San Francisco.

H.M.Jr: No, I didn't see it.

Bell: I thought we ought to report that when we write to Vandenberg.

H.M.Jr: Sure.

White: A letter is being prepared this morning.

H.M.Jr: I would like you, Harry, to get together for me a round table and get the very best people, irrespective of price - I don't care what the cost is - to sit around a week, two weeks, a month, and out of that I would like - I mean people both with brains and reputation, on the gold question.

White: That is a very good idea.

H.M.Jr: I would like a round table and I don't care what the things costs.

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White: I don't imagine it would cost anything.

H.M.Jr: I want the very outstanding people for and against the whole thing, whether it lasts a week or lasts a month, out of a kind of round table discussion.

White: Well, they will exhaust the subject in a couple of days.

H.M.Jr: They will? You are optimistic. Just as soon as you get a little rest. I mean, if you could arrange it so that they would come, and I would like you to drop everything and just concentrate on that.

White: I take it that it will be public, or is this something that you want --

H.M.Jr: No.

White: I mean the usual round table, because it will leak out anyway. Supposing we decide on the date right now and shoot for it.

H.M.Jr: Start any time after - I don't know what your personal plans are, but --

White: Why wcn't April 1 be --

H.M.Jr: Oh, no, too far away.

White: March 15?

H.M.Jr: April 19.

Klotz: April 19?

H.M.Jr: February.

White: All right, I will see about it. Most of these men will need a little time.

H.M.Jr: Get the most outstanding people as to intelligence and reputation.

White: Do you want to go outside this country?

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- H.M.Jr: If necessary. I want the best job that has been done in the last ten years on gold.
- White: I will be glad to prepare for such a meeting. I think it would be very desirable to go outside the country, because some of the leading men are not here.
- H.M.Jr: All right. I want it done and I would say - people have talked on all sides. Let them sit down and see if there is anything they can recommend or suggest.
- White: I think it is excellent, because I am sure they will emerge with an endorsement.
- H.M.Jr: Well, I don't know.
- Schwarz: Will we take a transcript with the possibility of publishing it later?
- H.M.Jr: Oh, yes.
- White: I think we can do a bang-up job on that.
- H.M.Jr: I don't care what else, Bank of Central America and everything, forget about it. That is what you are there for and I would like to do it. Talk with Bell and Cochran about it as you go along.
- White: I will do it.
- H.M.Jr: That is the idea I got when I went through the airplane factories. And I would like to sit in at some of the meetings.
- Cochran: It would be difficult to have it by the 19th if you are getting people from abroad.
- White: We will see what the list looks like and see where they are. Some people are easily available and some are not. I think the mere knowledge that you are going to have such a round table makes it possible to postpone it --
- H.M.Jr: Would you also include silver, or just gold?

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- White: I don't know. Let me think about it and I will tell you what the pros and cons are.
- H.M.Jr: Senator McNary - I was his guest. For the first time, he said, "Now, as far as I am concerned," he said, "I would just as lief wipe out the silver legislation." Now, he never said that before.
- White: I didn't know. It has certain disadvantages, but let me present them to you.
- H.M.Jr: Think about it.
- Bell: Do you want the Federal Reserve people in on it?
- H.M.Jr: No. I said people with reputation and intelligence.
- Bell: Well, they will get in on it sooner or later.
- H.M.Jr: If Harry is going to push Gardner on me, all right, and if you want Goldenweiser in, yes.
- White: They ought to be represented.
- H.M.Jr: There goes my rule right off the bat. I make rules and they last about two minutes. Well, anyway, there is a job and it is number one and everything else can go by the board, including duties on Italy and everything else. You gentlemen know that Mr. Traphagen called up Mr. Bell at 5:00 o'clock on Friday and told him that they had agreed to our one year tentative program on Colombia and I told him to report it to Mr. Welles.
- Bell: And I did, also to Mr. Jones.
- H.M.Jr: Has Mr. Welles heard?
- Bell: No. I understand Mr. Cotton called the Colombians yesterday and they were hoping to get here yesterday.
- H.M.Jr: They said midnight last night.

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Cotton: I haven't heard anything.

Bell: He hasn't heard anything.

H.M.Jr: I thought it was rather significant. The Tribune had a little squib that they hoped whatever arrangement they made with Brazil, it would be only for one year.

Gaston: Brazil?

H.M.Jr: Brazil.

Basil?

Harris: We had our first hearing before the Senate Appropriations Committee on Friday on the Customs budget. Senator McKellar was in the Chair. He was the one whose three offices were abolished in Tennessee. He didn't spend much time on the budget and not a hell of a lot of time on Tennessee. He was burned up something awful. Now, word has come back to me --

(Telephone conversation with Sumner Welles follows:)

February 6, 1940
10:00 a.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner
Welles: Hello, Henry. How are you?

HMJr: I'm all right, Sumner.

W: Good. I had the pleasure of sending you a letter last night.

HMJr: So.....

W: To the effect that I had just been informed by the Colombian Government that it had accepted in toto the suggestion made at your conference.

HMJr: Oh, wonderful! Wonderful!

W: So I'm glad to say that's now lined up.

HMJr: Now, I understand they don't want any publicity until -- between now and the fifteenth.

W: No, that was our agreement, you know.

HMJr: Well, I congratulate everybody. I think that's.....

W: Well, I congratulate you primarily. I think that's a real achievement.

HMJr: I think so. Oh, that's grand!

W: And not only was it the Colombian executive but they called in yesterday -- the President of Colombia called in his Debt Funding Counsel, which is composed of both political parties and they agreed unanimously.

HMJr: Well, isn't that grand.

W: That's very satisfactory.

HMJr: Now, between now and the fifteenth they are going to try to get a permanent one.

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W: That's right.

HMJr: Well -- now, when I get the letter can I communicate that to Mr. Traphagen?

W: By all means, Henry. Do it now, don't wait for the letter.

HMJr: Fine!

W: I dictated it last night at about seven o'clock and I forget whether I have signed it or not, but at any rate it will be in your hands within the next hour.

HMJr: Swell. Thank you so much.

W: Henry, let me ask you something while you're on the wire.

HMJr: Right.

W: With regard to this inter-American Banking Institution project - White took Berle's place because Berle was out of town yesterday.

HMJr: Yes.

W: And I wanted merely to ask you - it's coming up this afternoon with the full committee.....

HMJr: Yes.

W:and I wanted to know whether the project in its present form was entirely acceptable to you.

HMJr: Well, what I told White was this: For pressure of time he presented it to me this morning and I told him to keep the thing moving. Let her go.

W: Let it go?

HMJr: I -- yeah, I'll just have to take it on faith; I just.....

W: I see, because I'll have to vote tomorrow one way or the other on it, and I didn't want.....

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HMJr: Well, they're going to present it and I'm just taking it on faith. All of our people are on it and I have such confidence in our technicians I'm just going to take it.

W: Well then you're satisfied for me to vote yes in the name of this Government?

HMJr: Well now just -- do you mind one second.....

W: Yeah.

HMJr: White is here - let me just a minute, please.

W: Yeah.

HMJr: Will you hold on.
(Talks aside to Dr. White who is in HMJr's office)
Hello?

W: Yes.

HMJr: (Talks aside again.)
Well, Gaston and White were here.....

W: Yes.

HMJr:and recommend to me that -- that I say to you to vote yes.

W: All right, I'll do that tomorrow. Of course, it's only an ad referendum vote, but I didn't want to put us in the position of voting yes even as a recommendation to the respective governments unless I was sure that you were.....

HMJr: Well, Gaston and White recommend to me that -- that I say that you vote yes.

W: All right. That's fine, Henry. That clears that up.

HMJr: And I so do.

W: Many thanks.

HMJr: Thank you.

W: Goodbye.

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- Cotton: On this Colombian thing, are they going to write you a letter? I suppose sometime it would be good to get this thing in writing.
- H.M.Jr: I have never done that in any negotiations with countries. I have always taken their word.
- Cotton: It is such a simple thing, I don't suppose there is any possibility --
- H.M.Jr: I have always taken their word and I have only been let down once, and that is in the case of Mexico. In the six years that I have sat at this desk, only one government has ever let me down and that is Mexico and that is a pretty good record. Of course, when they let me down, I am lots of company.
- George?
- Harris: Can I just finish Senator McKellar?
- H.M.Jr: I am sorry.
- Harris: Two things that have arisen from the time we originally abolished those interior ports, one is the fact that we didn't know at that time that Senator McKellar was coming up for reelection this fall. It was very bad. Timing was very bad on that one.
- The second is that in December and January the figures that have come in, which we didn't have then, make his picture look a lot better than it looked at that time.
- H.M.Jr: Now, Basil, oh boy, are you learning. You learn fast, don't you?
- Harris: The collections in that district went up in December and January more than any district in the United States.
- H.M.Jr: And you had to go up on the Hill to find that out. What did they go, from \$500 to \$750?

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Harris: No, they are running to the tune of about \$700,000 a year, tremendous, you see. Let me get to the point of this; I haven't gotten there yet.

(Telephone conversation with Traphagen follows:)

February 6, 1940
10:05 a.m.

HMJr: Hello.

John
Traphagen: Hello, Mr. Secretary.

HMJr: How are you?

T: I'm fine and I hope you are well.

HMJr: I got -- in the first place let me tell you how pleased I was to get the message from you via Mr. Bell.

T: Well, I'm delighted I was able to send it to you ahead of time.

HMJr: Well, that's fine. Now I just spoke to Sumner Welles and he said he heard last night from the Colombians and they had accepted this thing in toto.

T: In toto?

HMJr: And not only that but the President of Colombia had his Debt Settlement Commission in, which is a nonpartisan board, and they have agreed to it one hundred per cent.

T: Fine! That's good.

HMJr: Now as I understand it, you gentlemen are going to continue to see each other between now and the fifteenth?

T: That's right.

HMJr: And see if you can work out something permanent.

T: That's right.

HMJr: But if you can't, as I understand it, they will pay one and a half per cent on February 15th, in any event.

T: Yes.

HMJr: Right?

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T: Yes, that's the way I understand it.

HMJr: Well now, the next thing is it's up to you and the Colombians to keep digging between now and the fifteenth, right?

T: That's fine. That's correct.

HMJr: And may I say.....

T: We are having a meeting of -- of the executive committee of the counsel today at lunch.

HMJr: Well, if I don't have another opportunity to work with you on another debt settlement, may I say it was, from my standpoint, highly satisfactory and.....

T: Well, that's very nice of you, Mr. Secretary.

HMJr:to work with you.

T: I can assure you that I -- I have had a most delightful time and -- working with you in this.

HMJr: Well, it's.....

T: I appreciate all the help you have given me.

HMJr: Well, it's -- it was a real pleasure.

T: Thank you very much indeed, sir.

HMJr: Goodbye.

T: Goodbye.

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- H.M.Jr: Now we come back to the sudden growth in the Customs receipts which suddenly developed in the last 24 hours.
- Harris: Well, the hearing is continued tomorrow morning and the information has come to me that if a review isn't given to this changed situation, then it might become necessary to sabotage the whole Customs budget, which he is apparently prepared to do, and I don't know --
- H.M.Jr: I am going to refer this to my non-political Undersecretary. Basil, you and Thompson and Bell get together and whatever you agree on, I will take it. Whatever the three of you agree on - let me tell you this. I went through a fight with McKellar because I wouldn't fire a boy who had done a perfectly good job. He held up the pay of - how many Alcohol Tax fellows?
- Thompson: Six or seven hundred.
- H.M.Jr: Six or seven hundred men for - three months?
- Graves: Yes.
- H.M.Jr: For three months. There were six or seven hundred fellows who didn't get their pay. Well, in those days I was young and ambitious and I had courage. Now, I am old and so I don't ask you to go through anything like that. It isn't worth it.
- Harris: That is what we are faced with now. The budget is already cut \$300,000 and if he whittles much more off it --
- H.M.Jr: It is not worth it.
- Harris: No, I agree with you.
- H.M.Jr: I have been all through it and it just isn't worth it.
- Harris: I am prepared to put my pride in my pocket.
- Bell: Besides, he is the next Chairman.

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- H.M.Jr: I went through that and I licked them, in the dirtiest fight you ever saw, but it isn't worth it.
- Harris: I could lick them in this, I think, if it came to a knock-down and drag-out, but I question whether it is worth it.
- H.M.Jr: I put on the President's desk Saturday the story about John Flynn and the story about abolishing these various offices, see, to save \$80,000. I have no copies, because I gave the original to the President. The President said, "O. K., so far as I am concerned." I am washing my hands on Flynn and I take it the President will send to the Bureau of the Budget his recommendation abolishing - what is it, the Comptrollers of Customs?
- Harris: Yes.
- H.M.Jr: Somebody asked me - well, you had better refresh the President's mind, and so on. He read it and took it and said O. K. I have no documents. I gave him everything I had, so I am going to forget about it all. It is in his hands.
- Harris: I was counting on that \$80,000 to make up part of this three hundred sixty.
- I just have a shipping memorandum I will leave on your desk, Mr. Secretary.
- H.M.Jr: O. K. I read the last one very carefully.
- George?
- Haas: I have just this report (handing report to Secretary).
- H.M.Jr: George, make a note on this to check with Collins. Make sure that they are coming, because I don't want to go through what I did the last time. Now, the tool fellows are supposed to be here at 9:15. He should call them up today and make sure they are coming, the machine tool fellows, at 9:15 tomorrow morning. There are three engine people - yes, and if Dr. Lubin is well, I want him here, also.

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Haas: His office called and asked --

H.M.Jr: I want to be sure the two fellows are coming. At 10:00 o'clock I want the three engine fellows.

Haas: At 9:15 the tool men and three engine people at 10:00.

H.M.Jr: At 9:15, you, Lubin and Collins and representatives of the tool industry. At 10:00 o'clock, representatives of Pratt and Whitney, Curtis, and Allison. Then Mr. Cochran will get in touch with Purvis and the machine tool experts and tell them to be standing by at their office from 10:00 o'clock on. I don't want them here, at their own office. But be sure that Collins contacts those fellows today.

Haas: Yes, I will get it.

H.M.Jr: Chick?

Schwarz: Hal Horan has asked if we would help Charles J. V. Murphy in working on allied purchasing, for Fortune.

Gaston: He says he has already made contact with Purvis and with Chalkley and with Truelle and got their side of the story.

H.M.Jr: Tell them they have got to show us first what they have got. Then we will take a look at it. Let them show us first what they have got. When I am gone, the only person that knows anything about that is Collins and Sullivan and what I know I am not telling. All right?

Schwarz: Yes.

H.M.Jr: The stories today were all right.

Schwarz: Fine.

H.M.Jr: Joe?

Merle?

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- Cochran: I made appointments for 2:45 and 3:30 this afternoon for you.
- H.M.Jr: All right.
- Cochran: The Britishing Purchasing Commission is having more trouble on this question of impostors.
- H.M.Jr: What?
- Cochran: Impostors, people insisting they are working for them, contacting the people who want to sell products, and they say they are going to give us some more information on that. You may have noticed that the St. Pierre Miquelon Consulate has been closed. That is the one that used to help you in regard to alcohol smuggling from France. I presume that isn't active now.
- H.M.Jr: I just want to give you people all a little help. You know, there are all kinds of excuses when you are late for appointments, your mother-in-law is sick or you have got a child that is sick or the car didn't come, see, but I got a new one this morning. I had a gentleman coming to pick me up at 8:15 and I waited and waited. I had to go to the eye doctor. He ran out of gas.
- Sullivan: Anybody got a better one?
- We have also run out of money on refunds, as you know. The deficiency appropriation, our part of the bill passed the Senate and it was tied up with an appropriation for the Navy which the Senate cut a million dollars - or will do in a conference today, but the Navy has agreed to our amount and that will probably go through this week. We have a voluminous record of negotiations with the Navy on the bill and then there was an article in the Wall Street Journal in which the Navy seriously criticized the Treasury and their attitude on the bill and since you indicated you were willing to fight it out with them up on the Hill and they withdrew, I think they should be told that either

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they want to keep quiet or if they really want to fight it out in the newspapers, we would be willing to fight it out there, too.

- H.M.Jr: I had a call from Mr. Edison. My slip said it was transferred to you.
- Sullivan: Yes, sir, and in that conversation - I have a complete memorandum of that conversation, in which he said they were not going ahead with the fight and that we had won it, and so on and so forth, but he did want to talk it over, and I told him that we would be glad to talk it over with them any time, day or night, on or off the record, or up on the Hill.
- H.M.Jr: John, if you don't mind, I am going to leave it to you and when you want me, I am here, see.
- Sullivan: All right.
- H.M.Jr: I will leave it in your hands.
- Sullivan: I do think that he should be told that either he must silence them down there and have them stop talking to the newspapers --
- H.M.Jr: Will you see him?
- Sullivan: Yes, I will. Or else we will start giving it to them. Either they quiet down or --
- H.M.Jr: Aren't you having lunch with them?
- Sullivan: Yes.
- H.M.Jr: Tell them that over the lunch table, will you?
- Sullivan: Yes, sir.
- H.M.Jr: Now, a day or two ago my wife drew my attention to a very unfair and dirty story by Pegler on the Bioff case and I think that you ought to get in touch with Pegler, who I know, and let him know that we did develop the Bioff case, et cetera, et cetera, and tell him as

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much as you think you can tell him, and it has been over in the Department of Justice since last June. I mean, he takes us on because we never go after any labor racketeers, et cetera, et cetera, we are scared of them, and I think we ought to take Mr. Pegler on and sit down where we can have a talk with him. If you will talk it over with Chick. I did it once before.

- Sullivan: Doesn't he know Elmer pretty well, Harold?
- Graves: Pegler does know Elmer.
- Sullivan: I think Elmer ought to sit in on that.
- H.M.Jr: Let's say Elmer and you and Chick take Pegler on, but do it fairly soon.
- Sullivan: Righto.
- H.M.Jr: Because we have a good record on that.
- Schwarz: I will get them.
- H.M.Jr: Anything else, John?
- Sullivan: No, sir.
- H.M.Jr: What did you do, hitchhike down to my house?
- Sullivan: No, by coasting down the hill I was able to get into a gas station at Wisconsin and Massachusetts.
- Klotz: He has the funniest way of saying it.
- Sullivan: I was doing pretty well with the gang until you made that crack.
- H.M.Jr: Ed?
- Foley: I attended a conference in Sam Clark's office yesterday on the Schenck case. John Cahill and his assistant, Correo, were there.
- H.M.Jr: Fine. I hear he is a great fellow.

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Foley: I don't know him. John is going down to Arizona for a month and Correo is going to be in charge.

H.M.Jr: Not in my neck of the woods, is he?

Foley: I don't know where you are going.

H.M.Jr: I was on a dude ranch before when he was. Not so good. He left.

Bell: He won?

H.M.Jr: No, I won.

Foley: Well, I offered them Sammy Klaus and they didn't want him. He said it would cause resentment on his staff. His situation is much different than Bill Campbell's. Bill doesn't have any tax division. Correo was going to handle it and we had Oftedal and Oftedal's mother is in and he is going back to the West Coast and then come back to New York and put himself at the disposal of Cahill and do some more investigating.

H.M.Jr: All right.

Foley: That Grand Jury that was looking into the assay office, the report is in draft form and will be down in the next week. Cahill says they criticize Sigmund Solomon.

H.M.Jr: Known to his friends as "Sig."

Foley: That will probably come over through Justice. Ben Leming is here and I would like to bring him to the Indianapolis conference, if that is agreeable.

H.M.Jr: O. K. I want you (Gaston) to sit in on this. You are scheduled to, aren't you?

Gaston: That is right.

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H.M.Jr: Is that all, Ed?

Foley: That is all.

H.M.Jr: Herbert, as far as I know, nobody has shown to me this moving picture of the U. S. Secret Service on "Know Your Money" or something like that, and they tell me it is a swell picture and going like a house afire.

Gaston: I think it is very good and we can arrange to show it to you any time.

Schwarz: You tell us the time.

H.M.Jr: And I would like to know who gets the credit for the idea.

Gaston: Frank Wilson.

H.M.Jr: Really?

Gaston: Yes.

H.M.Jr: Now, if it is as good as I hear it is, why can't you do one for the Narcotics?

Gaston: I had that in mind. I think it can be worked out.

H.M.Jr: And I got --

Gaston: There is some question about it.

H.M.Jr: And then not - I don't see, if they work nights - I mean, just push them - why you couldn't get out a news reel to show - the week before the 15th of March, showing people how to make out their income tax. Every year if every Trans Lux or news reel theatre would show it in the United States, it would be a very good thing.

White: It would be a good idea. If you could get that chap who put on the funny act about filling out the income tax, I have forgotten his name --

Sullivan: Lew Lehr?

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White: No, that would be too appropriate. I have forgotten, but I am sure some of you saw it, how income taxes are filled out.

Haas: That is Benchley.

Schwarz: Bob Benchley?

White: He could put it on and still give it enough educational value. I think it would be an extremely excellent idea.

H.M.Jr: I will think about it.

White: Did you ever see Benchley describe that?

H.M.Jr: I didn't mean to make a burlesque out of it.

White: I don't either, don't get me wrong. It needs no help in that direction.

Gaston: Do you want to set a date this week to see that film?

H.M.Jr: No, when I get back.

Gaston: It could be in the evening, you know.

H.M.Jr: No, Herbert, when I get back. My feelings are hurt.

Gaston: Yes.

H.M.Jr: What else?

Gaston: I have a report here on the industrial diamonds (February 6). They both talked pretty freely those fellows and gave the name of the man who is acting as the German agent and the question arises whether we should let the FBI know that this man is acting as purchasing agent for the Germans. We have his name and address there.

H.M.Jr: Let me read it.

Gaston: This Russian steamer, Mayakovsky, that took some

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of the cargo to Manzanilla, left Manzanilla for Los Angeles February first and there is a rumor in Manzanilla that she is going to pick up some airplane parts in Los Angeles. I think perhaps we had better have the Customs and Coast Guard find out just what she does do in Los Angeles.

H.M.Jr: If you will.

White: This last ship is taking five airplane motors to Russia, with the State Department's okay, apparently.

H.M.Jr: You mean the Mayakovsky?

White: No, the other ship.

H.M.Jr: It is definitely under the embargo of the President not to do that.

White: I have it indicated here. It is from the same ship that the molybdenum is going on.

H.M.Jr: How can I get that to the President?

White: Well, let's check up to see whether it is put on already or about to be put on and get the information this morning.

H.M.Jr: I am talking about the molybdenum and the airplane engines.

White: I didn't understand you. You are talking about both of them, aren't you?

H.M.Jr: No, the airplane engines. Molybdenum possibly may be the old contract.

White: Well, we first want to find out whether it is already loaded or going. After we check up on our information, which was that it has been - is being --

H.M.Jr: No, the five airplane engines.

White: Where do you want to go from there?

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- H.M.Jr: I want to go to the President of the United States. Why do you people fool around with this thing? We have been on it for three or four months, that no airplane engines should go and if it goes, it should go immediately from Gaston to the White House.
- White: It was telephoned last night and came in in the morning.
- H.M.Jr: That isn't fast enough. Get busy, Herbert, and fix me up a memorandum and I will send it to General Watson at once. You will have five minutes after the meeting and you and Harry fix up a memorandum for me to send over to the White House.
- Gaston: You asked me to get in touch with Watson yesterday about those Amtorg reports. I called him three times and each time was told that he hadn't come in but would call me, and the last word I got was that he probably wouldn't be in at all, so I wasn't able to get in touch with him at all yesterday. Shall I keep after him?
- H.M.Jr: Yes, definitely. But get these airplane engines before that boat sails.
- Harris: My information is the boat isn't in yet, which doesn't check with Harry's.
- White: His information is that the boat isn't in yet and ours is that the boat isn't loaded. That is the first thing we will check up on.
- H.M.Jr: Well, get on it.
- White: We will do it.
- Gaston: You haven't any particular attachment for the aviation section of the Coast Guard, have you? You don't mind if it is abolished? It seems a very illogical set-up and what Waesche and I said was it ought to be abolished and the operations end of it put in the Research and Engineering.

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H.M.Jr: Well, you talk to me about it.

Gaston: Right.

H.M.Jr: O. K.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At the staff meeting this morning, the idea was mentioned of calling together a group of experts to discuss the gold question. In answer to Mr. White's inquiry, the Secretary indicated a willingness to include foreign experts in the conference. May I venture to suggest the following points to be considered in this connection:

1. If gold is to be the subject of a discussion that includes foreigners, are we not obliged to call in our Tripartite partners?

2. If we call in Tripartite or other foreign Government representatives or gold experts at this time, they will be of one or two categories (a) Government and Central Bank authorities (b) economists, bankers or other monetary experts who, I am sure we would find, will express a nationalistic point of view if drawn into an international gathering here.

3. Is it the desire to throw this whole subject open to a group of international experts before we have determined our own position, notwithstanding the world political situation and our neutrality?

4. Would not an international meeting at this time require State Department approval and its possible inclusion?

5. Is there not a strong likelihood of such a conference causing a flight from gold, the first result of which might be a heavy sale to us from the \$1,100,000,000 worth of gold now held under earmark in this country, and accelerated shipments to us for sale?

6. Would not such a conference and its resultant rumors encourage the British and French to continue to unload gold on us rather than to sell American securities to acquire the dollar balances which they need?

7. While there are a few detached economists, such as the Swedish Jacobson in the B.I.S., who could be helpful eventually, would it not be better now to limit our conference to American experts?

8. Would it not even be more advisable confidentially to call a group of Americans in on general monetary matters, and

then concentrate on gold, rather than to risk letting it be known that we are concerned about gold alone?

9. Whatever the group may be, difficulties will be experienced in preventing conjectural press stories as to the presence and purpose of the well known experts.

The Secretary was not decided as to whether silver should be included in the study. My personal opinion is that our silver policy would be thoroughly condemned by any representative group of experts that might be assembled. I am opposed, therefore, to having this brought before any committee outside of the Treasury.

This seems primarily a political question and the Administration may prefer to make no change in its silver policy. At the same time, I am inclined personally to the belief that good monetary policy might also be good politics just now. It is true that our purchases of silver in 1939 were much lower than in 1935, and that the likely purchases for 1940 should not exceed 175-200 million ounces. Since January 1 we have bought 15,564,000 ounces of foreign silver. When we have lowered the price of silver in the past there has usually been some particular occasion therefor. This past summer the circumstances attending monetary legislation were ideal for permitting a decline. There is at present perhaps no propitious occasion. It is possible that there would be some repercussions from the silver group, or that the State Department would object in behalf of Latin American trade and good relations, but I venture to suggest, nevertheless, that of our own initiatives, and without bringing the question before any conference or awaiting further mandate from Congress, we consider the advisability of beginning to reduce our price paid for foreign silver, and so continue until we may arrive at a level where the intake in ounces will be much smaller than at present, or at least the cost to the Treasury in dollars will be much lower.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE February 6, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was a dull affair with no particular interest shown in any of the foreign currencies. Sterling opened at 3.98-3/4, reached a high of 3.99-1/8 and closed at 3.98-1/2.

Sales of spot sterling by the four reporting banks totaled £302,000, from the following sources:

By commercial concerns.....	£ 67,000
By foreign banks (Europe and Far East).....	£ 235,000
Total.....	£ 302,000

Purchases of spot sterling amounted to £198,000, as indicated below:

By commercial concerns.....	£ 160,000
By foreign banks (Europe and Far East).....	£ 38,000
Total.....	£ 198,000

The following reporting banks sold cotton bills totaling £41,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 24,000 by the Guaranty Trust Co.
12,000 by the National City Bank
3,000 by the Bank of Manhattan
2,000 by the Chase National Bank
<u>£ 41,000 Total</u>

The Dutch guilder was quoted at .5309 in Amsterdam early this morning. At our opening here, it was .5314 and during the day touched a high of .5321. It closed at .5320. It was reported that the improvement in the rate was due to the holders of dollars in Amsterdam disposing of them to acquire guilders with a view to subscribing to the new 4% loan which it is rumored would total about 700,000,000 guilders. The feeling in the foreign exchange market was that by the Dutch subscribing in a generous manner to this loan, it would forestall a forced loan, rumors of which have appeared during the past few weeks.

The other important currencies closed as follows:

French francs	.0225-7/8
Swiss francs	.2242-1/2
Belgas	.1687
Canadian dollars	12-7/8 % discount

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The discount on the Cuban peso was again reduced today. Yesterday it was quoted at 8-1/2% and today at 7-13/16%. On January 5, a London despatch on the Dow Jones ticker stated that the British Board of Trade had purchased 42,000 tons of Cuban raw sugar for shipment during March and April. Announcement of this transaction probably helped to strengthen the rate for the Cuban currency.

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

\$22,500,000	from the Bank of England
1,000,000	from the Netherlands Bank
410,000	from the National Bank of Belgium
\$23,910,000	Total

The Federal Reserve Bank of New York reported to us the following shipments of gold, all of which will be sold to the U. S. Assay Office at New York:

\$3,055,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York.
96,000	from Java, shipped by the Nederlandsche Indische Handelsbank to the Guaranty Trust Company of New York.
66,000	from Canada, shipped by Barclays Bank, Montreal, to the Bankers Trust Company of New York.
\$3,217,000	Total

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to apply for a license to transfer 77,974.151 fine ounces of gold (\$2,729,000) from B.I.S. Account #4 to the account of the Central Bank of Turkey at the Federal. B.I.S. Account #4 is gold owned by the Turkish bank. The Federal Reserve Bank of New York subsequently received a cable from the Central Bank of Turkey to receive this gold from the B.I.S. The Treasury granted permission to the Federal to make the transfer.

On the report of January 31 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$21,676,000, an increase of \$1,065,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION JANUARY 24	SHORT POSITION JANUARY 31	INCREASE IN SHORT POSITION
England	\$ 9,979,000	\$12,121,000	\$2,142,000
Europe	7,350,000	5,767,000	1,583,000 (Decrease)
Canada	79,000 (Long)	17,000 (Long)	62,000
Latin America	238,000	212,000	26,000 (Decrease)
Japan *	2,517,000	2,547,000	30,000
Other Asia	576,000	1,098,000	522,000
All Others	30,000	52,000 (Long)	22,000 (Decrease)
Total	\$20,611,000	\$21,676,000	\$1,065,000

* Includes Korea and Manchuria

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The London prices for silver were fixed slightly lower at 21-11/16d for spot and 21-9/16d for forward, both deliveries being off 1/16d. The U. S. equivalents were 38.93¢ and 38.46¢.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made three purchases of silver totaling 200,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries, for forward delivery.



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TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Following the instructions given me at this morning's staff meeting, I telephoned Mr. Purvis at New York at 10:35 this forenoon. It was arranged that he and Bloch-Laine will be available in Washington tomorrow morning, from 10 o'clock on, together with two or possibly three tool experts, both British and French. We can get in touch with them either through the Purchasing Commission's office in Washington, or through Mr. Purvis at the Hay-Adams House.

Mr. Purvis is extremely anxious to have a separate talk with the Secretary to clear twother matters, one of them vitally important, and the other bearing upon strategic materials.



HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 1:09 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION TWO).

There are three methods he said to increase national income:

(a) By augmenting the work of men, tools and capital-- this acceleration of rhythm of service of course takes a heavy toll in depreciation and exhaustion.

(b) Through the maximum utilization of all stocks and resources previously accumulated. He mentioned by way of example coal, gold and foreign assets and admitted that utilization of such stocks is, of course, likewise a means of impoverishment. Part of the problem is to compel the owners to give up such stocks to the government and "not to buy foreign cars" (Reynaud's chosen example of "treason" -- my telegram 3045, December 28, 5 p. m.);

(c) Through foreign loans. Formerly he said this last was considered "hopeless". Now, however, through the operation of the Franco-British financial accord the many different goods and services of the British Empire are available and this would increase French national income.

KLP-CSB

MURPHY

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 12:52 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION THREE).

But if the increase in national income is insufficient for the state's needs there must be a "levy" upon the individual. This levy can take the form of taxation or of borrowing. Taxation should be as high as possible. There is, however, the point of diminishing returns and the factors of political reaction--the point where increased taxes cause increased volition or the point where the profit motive disappears; care must be taken to stop short of that point. The state must get the largest percentage of national income possible and levy upon accumulated capital and resources. They must be taken at the source.

Turning to borrowing, he said that the difference between it and taxation is really very little. A loan is merely a promise to pay out of future revenues of the state; both taxes and borrowing are levies upon the
possible

hsm -2- No. 180, February 6, 2 p.m. (Section 3) from Paris
possible means of consumption of the individual. Both
can in effect be "forced" loans. There are two means
of reducing individual consumption: voluntary and
forcible. The voluntary must be encouraged as much as
possible through continuous appeals for armament bond
subscriptions, by developing a patriotic cult for the
fashion of old clothes, et cetera, but this is not enough.
Forcible reduction of consumption may be accomplished
by two methods: first by higher prices--this should
(begin underlining) not (end underlining) be applied to
necessities but only to luxuries--and second, by the
important means of strict rationing.

MURPHY

CSB

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 12:40 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION FOUR).

So much he said for "reality" but there is a "monetary veil" to consider, the mirage of credit. The increase of national income and the reduction of consumption may still be insufficient. When the military demand money no one in war time can refuse: the result--advances from the bank of issue. He emphasized, however, that such advances are not a third source of capital for the state. The result of such borrowing from the bank of issue is either an increase in national income through increased production or an increase in prices forced up through increase in the available supply of money and a decrease in available goods for consumption. Private purchasing power goes down in the same ratio as that of the state goes up: the latter levies on the purchasing power of the individual. It is merely a last method for the state to obtain what it needs.

The

hsm -2- No. 180, February 6, 2 p.m.(Section 4) from Paris

The producers of course get this additional sum expended by the state. It is important what they do with it. They may export capital.

MURPHY

CSB

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 1:16 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION FIVE).

This it is endeavored to prevent through exchange control. Or they may demand goods. Much depends of course on the rapidity of turn over of this additional supply of money. The capital circuit must get somewhere between zero and nine tenths. But the capital circuit is not automatic: for it to function successfully demand must not be increased; rationing and control of prices are "absolutely necessary". At best the state obviously cannot get all of this additional purchasing power and there remains a "residue of inflation"; the results of this "residue of inflation" are an inevitable increase of prices and an inevitable export of gold, followed in turn by depreciation of exchange and further price increases. The object of exchange control thus is to serve as a brake on this to the greatest extent possible.

Thus,

hsm -2-No. 180, February 6, 2 p.m. (Section 5) from Paris

Thus, he said, he had explored all possible methods of war financing and as had been seen they are not many. He spoke of his continued staunch devotion to the liberal principles which the Societe d'Economie Politique represented and of the inconsistency to him of the policies of constraint and restriction imposed by the war.

MURPHY

CSB

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION SIX).

In a liberal peacetime economy the state takes what it needs and the individual has a free choice in expenditure of the remaining portion of the national income. Restriction imposed by the war, he said, is the equivalent of indirectly requiring the individual to renounce a part of his purchasing power. He was more and more convinced of the dangers of totalitarian methods and of the necessity of turning again to a liberal economy after the war.

Reynaud likewise made a few remarks in lighter vein endorsing what Rueff had said and emphasizing the paradox that he as a finance minister who had firmly rejected a system of half free and half controlled economy, in favor of 100 percent free economy, was now obliged to enforce a system of 100 percent control. He concluded by saying that one of the principal war aims of the states must be a return once the war is over to that free economy for
which

hsm -2- No. 180, February 6, 2 p.m. (Section 6) from Paris
which those present stood. He remarked incidentally
that there was "much exaggeration" in the rumored
estimates of the daily cost of the war.

It is probably significant that both Reynaud and
Rueff should add their views to current cry for ration-
ing. The opponents, however, are likewise not inarti-
culate.

MURPHY

KLP

HSM

GRAY

Paris

Dated February 6, 1940

Rec'd 3 p. m.

Secretary of State,
Washington.

180, February 6, 2 p. m. (SECTION SEVEN).

The decree of March 19, 1939, providing for the system of advances to enterprises holding contracts for supplies for national defense modified by decrees of September 1, 9 and 21, 1939 (Embassy's despatches numbers 4047, 4915 and 5245, of March 24, September 5 and November 6, 1939, respectively) was complemented by decree published in the JOURNAL OFFICIEL of today. Under this measure cash advances may be granted to enterprises authorized by the Government to acquire machinery and equipment for the account of the state for the execution of its contracts. Such advances will be limited to 50% of the cost of such acquisitions.

Deposits in national (postal) savings banks from January 1 to 15 totalled 451 million francs and withdrawals 166 million. (END MESSAGE).

MURPHY

WVC