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GROUP MEETING

November 1, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Harris
Mr. Graves
Mr. Haas
Mr. Gaston
Mr. Foley
Mr. Viner
Mr. Duffield
Mr. Cotton
Mr. White
Mr. Cochran
Mr. Thompson
Mr. Bell
Mrs Klots

H.M.Jr: Gene, if you don't know it, get the story about these two nice women who are retiring.

Duffield: I don't know it but I will get it.

H.M.Jr: Well, get it. Bell started to tell me that this one woman is the daughter of the man who took the testimony when Lincoln was shot. One woman was the first person that Bell saw when he came in. Forty-nine years for one and fifty for the other.

Duffield: You mean he saw her fifty years ago?

H.M.Jr: She still is able to carry on. It is quite a story.

Gaston: It is a pretty old case for us to work on, isn't it?

H.M.Jr: It has got both Thompson and Bell so shaky that they aren't over it yet. It is quite a story and I think it is nice for them. You ought to have their pictures taken.

Hanes: I haven't anything.

Gaston: Burton took off from Floyd-Bennett at 7:17, and Burke, from Cape May, at 7:55. After holding a three-way conversation with Stark and Callahan, Waesche put two more cutters on that deep sea patrol.

H.M.Jr: Today?

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Gaston: This morning.

H.M.Jr: How many does that make?

Gaston: That makes six ships on that project, and they ordered two more cutters out, immediately, today on this particular search.

H.M.Jr: What else?

Gaston: They had orders to trail the submarine if they found it. Waesche didn't know exactly how he was going to trail the submarine, but he gave the order just the same.

H.M.Jr: Maybe they will give you a couple of submarines.

Gaston: They haven't got any of those trained seals. They had trained seals, you know, in the last war.

H.M.Jr: Cryder in my press conferences said, "What is this that we hear, that the Navy has withdrawn because the weather is bad and the Coast Guard is taking over the patrols," and I said, "Well, you will have to see Mr. Gaston," and he said, "Pardon me, you mean Admiral Gaston?"

Gaston: I get it different.

H.M.Jr: I am referring to my stenographic notes. Either way, it is good.

Gaston: I appreciate it.

H.M.Jr: Will those boys be over at 10:00?

Gaston: Yes, they will. One of the Customs agents interviewed the owner of this yawl, Lekala, in New York harbor. This man Schwartz said yes, these people did plan to go to Germany to make contacts with a German boat and they were instructed to do so by a man in the German Consulate in New York, which was very interesting, I thought.

Foley: Here is a memorandum (handing memorandum to Secretary) on Wagner's statement on the Stabilization Fund. I thought we ought to put it all together so if we ever have to refer to it we will have it there.

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H.M.Jr: What about one for the Speaker?

Foley: That will be ready in maybe an hour.

H.M.Jr: O. K. Anything else?

Foley: No.

H.M.Jr: There was no letter from me to the Attorney General?

Foley: No.

H.M.Jr: That was a break for me.

Foley: There was an investigation of Carr. I think Elmer said he was all right.

H.M.Jr: Elmer said so?

Foley: Yes.

H.M.Jr: Well, he told me yesterday he didn't know whether Elmer okayed him or Wenchel okayed him. He said one or the other okayed him and said he was all right. It was Irey?

Foley: Yes.

H.M.Jr: Well, Irey has been the fellow who has been the most critical.

Foley: That is right. Afterwards he found out that the former U. S. Attorney out there, Pierson Hall, who used to be this fellow's boss, was in on the case and they were pretty close together.

H.M.Jr: Well, he is the first man that brought it to my attention.

Foley: Yes. He did investigate Carr and they did ask whether he was all right.

H.M.Jr: When I brought it to the Attorney General's attention that we were critical of the way Carr presented this thing to the Grand Jury, he very patiently said, "All right, I will read the testimony myself," and I just want to tell you either Wenchel or Irey personally okayed this man. It has been Irey who

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has been the most critical. Of course, we all make mistakes.

Anything else?

Foley: Nothing.

H.M.Jr: Herbert, you might bring Irey's attention to what I am saying.

Gaston: Yes, I will.

H.M.Jr: If there is a comeback from the Attorney General, your own man will get it. You are going to talk to him?

Gaston: Yes, I will.

Foley: Jim Morris asked us to designate somebody to present the case back in May and I spoke to you. I think that at the meeting - I have forgotten the exact date - we decided that we didn't want one of our men to present the case because it would get too long, but we would make a man available to them while they were going over the files and familiarizing themselves with it, before they held conferences with the taxpayers, so we designated Carpenter and he went to Carr before the conference and then Carr took over and went out on the case.

H.M.Jr: The fact remains that Carr presented the case.

Foley: That is right.

Gaston: I suppose Irey will say he didn't know how Carr got in on this case and then Pierson Hall came up after Carr was removed.

H.M.Jr: Is it unusual for a Treasury man to make such an investigation?

Foley: They suggested a fellow by the name of Woodcock and Irey didn't want Woodcock.

H.M.Jr: Well, O. K.

Gene?

Duffield: Bob Kintner was going to come in this morning and start going over the documents but it is off until tomorrow.

H.M.Jr: Documents?

Duffield: On the April meeting.

H.M.Jr: Yes. Well, suppose you and Gaston and Hanes stay a minute behind and I will tell them what we had in mind and see if they agree.

Cotton: I wonder if you had anything to tell me about this thing?

H.M.Jr: Mr. Hanes has kindly accepted the responsibility of arranging the personnel to go down to Guatemala. He has taken it completely off my shoulders, so refer to him. I have asked him to. I have got to an impasse and I don't want to be impatient with the State Department, so Hanes is going to handle it, if you don't mind. I got impatient yesterday, so I will let Johnny handle it.

Hanes: I couldn't get that man again on the phone this morning.

H.M.Jr: He has a North Carolina disposition. I take North Carolina tomato juice, but it doesn't help. I guess I don't take enough of it.

Harris: Does this mean that the Tijuana trip is off?

H.M.Jr: No. That is a pleasure; the other is a headache. George?

Haas: Hadley asked Lindow and Murphy to prepare a chart showing the price of second-grade rail bonds. Lindow gave this chart to Hadley last evening. Hadley told me this morning he didn't have a chance to submit it to you.

H.M.Jr: There is nothing in it, is there?

Haas: Second-grade rail bonds, or any bond on which the payment of the principal is in question, act like common stocks in the market. You will note that the chart also contains one very high-grade rail

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bond, the Norfolk & Western. This bond has acted in the market like a Government bond. The second-grade rail bonds have advanced a little more percentage-wise, I think, than the Dow-Jones common stock average.

H.M.Jr: Is there any significance in the way they have acted?

Haas: No.

H.M.Jr: George, Lauchlin Currie came over here and asked whether it would be all right for him to talk to the President about some of our estimates, because he was in disagreement and he said first, he didn't want to do anything without first talking with me, and second, he didn't want Professor Brownell jumping on his neck, because he jumped on him the other time and he knew Brownell wouldn't approve of even talking to me. He called me up and he didn't have an opportunity to talk to the President because the President decided not to give out a budget summation.

Bell: None at all?

H.M.Jr: None at all. I mean, incorporated with the January one. I think it would be a very nice thing - my attitude is that if anybody feels that we are off, we would like to know it, so I think if you call him up and invite him to come over and sit down and tell him you will be delighted to get what he has in mind, irrespective of the President, it would be well. The question is something about Customs receipts, something low on those, something on corporate income, I believe, and some other things. So, whatever he has got, I would like to get the benefit of, so if you call him up, I think it would be very nice. Tell him not to worry about Professor Brownell.

Haas: All right, I will do that.

Bell: I think it might be a good thing, Mr. Secretary, if before the January estimates go in, you have the Director of the Budget or a representative in on that conference, because I am afraid there is developing a scheme to have their own estimating crowd in the executive offices, either by way of

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checking the Treasury estimates or doing their own estimating. There is some feeling there, I know.

- Haas: There has been for 20 years, hasn't there?
- Bell: Yes, but it is stronger now than it has been for some time.
- Haas: I think it is better to bring them inside and let them see it, because God knows they are welcome.
- H.M.Jr: That is right. I no longer have any responsibility for the Budget.
- Bell: I think you still have the law, however, on your side, to make estimates of receipts.
- Hanes: Aren't they satisfied with the estimates?
- Bell: I think, generally speaking, they are.
- H.M.Jr: The former President's assistant isn't satisfied. He just says so and we say, "Fine, come on over."
- Haas: They put up a song and dance about being apprehensive about business going to pot next June and they can't be on both sides of the fence at the same time.
- Viner: Oh, can't they?
- Hanes: I don't see what they have got to complain about. You go back and read the record and the record has been darn good. I think it is....
- H.M.Jr: I told them that. Our record for the last five years has been extraordinary, but I still say somebody who was Assistant to the President, if he has any question, is welcome to sit in and see what we have got, and we will let him set us straight or we have an opportunity to set him straight. That is my attitude.
- Hanes: They never do figure the lag on this thing and it is a big lag.
- H.M.Jr: Maybe you would like to sit with them.

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Hanes: I could make out a good case on the record, I know that, because you go back and that record is extremely good and you are guessing 18 months ahead.

H.M.Jr: It is the best any Secretary of the Treasury has ever done. That is due to my Assistants.

Haas: And your elbow.

H.M.Jr: Well, we have got the best record, anyway. What's his name, Mills, was 50 percent off within three months. He missed it by 50 percent. I still say, George, the attitude - invite him over.

Haas: Absolutely. No doubt he has done a lot of thinking on it and we would like to get it.

H.M.Jr: And it is important that the President get the best of the combined efforts. I see in Kintner and Alsop's column that you are worried about the third quarter.

Haas: I don't know who my reporter is. He says it is reported that I am worried. I never saw him.

H.M.Jr: I would let Kintner and Alsop read your report of this week if they really want the facts.

Haas: You are going to let them?

H.M.Jr: I just said it with a rising voice, indicating question.

Haas: It suits me.

H.M.Jr: No, I don't want - all right.

Basil?

Harris: Nothing.

White: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

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Bell: Here is a letter for the U. S. Housing Authority about financing the 15 million.

H.M.Jr: Now listen, fellow, let me read this.

Bell: That is what we promised them. We told them to go ahead on their program.

H.M.Jr: Well, didn't they promise you to talk it over with you before they do anything?

Bell: Yes. They apologized very profusely.

H.M.Jr: Who did?

Bell: Kaiserling.

H.M.Jr: What was his excuse?

Bell: Well, he thought that we had in mind only the formal advertising notice and he thought this preliminary publicity wouldn't hurt anybody, so they went ahead with it. He was very sorry he hadn't contacted me beforehand.

H.M.Jr: Did you let him know?

Bell: Yes, I called him up and told him we were a little disappointed, that I thought they might have waited until we had our financing out of the way, at least.

H.M.Jr: How much are you charging?

Bell: A quarter of a percent.

H.M.Jr: Just to teach them a lesson, can't you up it a little bit?

Bell: Well, I don't think they will have it more than 30 days.

H.M.Jr: They promised to give us a quarter?

Bell: They don't promise anything but the 15 million.

H.M.Jr: What do you charge the others?

Bell: That is what we charge them all on the short-term basis. We charge Home Loan Banks a quarter percent.

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Interest rates have risen. Would you like to go up an eighth?

H.M.Jr: You are a lot of "softies." What else?

Bell: Martin Dies has written the Treasury asking about a ten thousand dollar certificate supposed to have been presented several years ago by Browder. We answered his letter on the first of October and said that we would go into it and let him know later.

H.M.Jr: Certificate?

Bell: Yes. It was a ten thousand dollar certificate of indebtedness.

H.M.Jr: Presented to who?

Bell: Presented to the Treasurer of the United States. It says, "This Committee has been advised that during 1927, Earl Browder, who is now General Secretary of the Communist party of the United States, attempted to cash a ten thousand dollar U. S. Treasury note through a bank in Manila, Philippine Islands; that the bank, the name of which is not known, before cashing a bill of such large denomination, wanted to verify its serial number with the Treasury Department of the United States; that a cable was sent by the bank in Manila to the Treasury Department, making inquiry regarding the serial number of the ten thousand dollar bill; and that, prior to receipt of a reply to the cable, Mr. Browder became alarmed and made no further effort to cash the bill in question. Information has been received that the same bill was cashed in New York City some time later."

Well now, looking through our files, we have nothing on that particular bill, but there was a ten thousand dollar certificate of indebtedness from the Philippine Islands which was cashed in 1922, redeemed, rather, in September of 1922, paid by the Treasurer and perforated and sent to the Philippine Islands, along with the regular transcript of the Treasurer.

In 1924, I think it was, the Philippine Islands' Treasurer moved from one building to another and apparently lost some of these paid certificates.

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Somebody picked it up, and in 1927 that certificate appeared in New York. The dates all coincide, you see. They had some paper pasted over these perforated holes and it looked like a perfectly good certificate. They sent it to the Treasurer and, of course, they refused to make payment. This letter has been written, reciting all those facts and the banks through which that certificate came, and wound up by saying, "It will be noted that there is a coincidence as to time, place and denomination of the obligations, but that otherwise the facts as stated in your letter with respect to the Browder transaction and the transaction which the Treasurer reports herein, do not check.

H.M.Jr: Who signs that?

Bell: That is prepared for my signature. Mr. Duffield thinks that - and I think it is a pretty good point - a committee might come down and get these facts, informally, and we might just not write him a letter.

H.M.Jr: Why?

Bell: Well, he thinks that something may be made of it.

Duffield: I don't see why we go way out of our way to recite a long history of a case and then say, "It doesn't seem to check with what you ask, but it might." It seems to me we are sort of gratuitously doing some investigating.

Viner: Dies would at once put that on the record, you know, and pin it on Browder, whether Browder had any connection with it or not.

Duffield: I think so, too. I think we might write Dies and say we don't have any evidence of a transaction such as he describes, or anything that checks with that transaction. Then we can ask him if he or his counsel, or somebody, wouldn't come down and we could relate to them this other case.

H.M.Jr: If you were going to do that, I would ask his counsel, who is an awfully nice fellow - what is his name?

Gaston: Whitley.

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H.M.Jr: And tell him you have got something you would like to tell him about and to come down and see it. He was an F.B.I. man for seven years in New York. He is a terribly nice fellow.

Bell: I am inclined to agree with Gene that that is the best way to handle it.

H.M.Jr: Then ask him how he would like us to handle it.

Bell: All right, I will do that.

November 1, 1939
9:26 a.m.

John F.
O'Ryan: Morgenthau?

HMJr: Talking.

O: Hello. This is General O'Ryan.

HMJr: How do you do, General.

O: How are you, sir?

HMJr: I'm all right.

O: I wondered if you could lunch with me today at the Metropolitan Club.

HMJr: Oh -- no, I -- I have an engagement, General.

O: Well, I'm sorry for that. I've got to go back tonight. I wanted to have just a brief word with you.

HMJr: Yeah. Well, I'll be glad to see you at the office.

O: All right. Suppose I stop in this afternoon and just take a chance in between times.

HMJr: No, I -- you can't do that with me. I work on too close a schedule. I'll be glad to give you an appointment.

O: Oh, yes.

HMJr: I can see you this morning.

O: At what -- at what hour?

HMJr: I can see you at eleven.

O: At eleven?

HMJr: Yeah.

O: All right, I'll be there.

HMJr: I can see you at eleven.

O: Yeah. All right, thank you.

HMJr: Thank you.

November 1, 1939
4:56 p.m.

HMJr: Hello.

Operator: Mr. Jones is away from his desk for 15 minutes.

HMJr: Well, is there somebody there?

O: Just a minute.

(Brief pause)

O: His operator is there; his secretary is out too.

HMJr: Well, tell Mr. Bell I couldn't speak to him and let Mr. Bell talk to him when he comes in.

O: All right.

HMJr: And tell Mr. Foley I want him to walk up with me part way.

O: All right.

HMJr: And he should be downstairs in about -- oh, be downstairs at five o'clock.

O: All right. May I ask you a question please, Mr. Morgenthau?

MEMORANDUM

November 1, 1939.

To Secretary

From Mr. Gaston

The following message has been received this morning
(^{turned} at 8:50) from the BIBB:

"Arrived but no vessel in sight on position given.

Will commence search to northward for vessel or boats.

Moderate southerly gale has been blowing with rising
barometer."

(British ship Goulmore's
report of attack by Sub-
marine)

HSM

GRAY

London

Dated November 1, 1939

Rec'd 10:45 a. m.

Secretary of State,
Washington.

2232, November 1, 1 p. m.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT, SECRETARY
OF STATE AND SECRETARY OF THE TREASURY.

I had a talk with Sir John Simon this morning in which he stuck closely to the text of a memorandum which obviously had been prepared for him a copy of which I obtained on leaving. It really embodies all he had to say.

"The amount of gold and other foreign exchange resources at our disposal for the necessary purchases abroad for the prosecution of the war are by no means unlimited. The United States Government has been kept informed generally as to our gold resources, and the amount of our readily mobilisable foreign exchange securities has recently been discussed with you. Additional foreign exchange assets can, broadly speaking, only be obtained from the sale of exports, including newly mined gold, abroad, and it is inevitable that our export trade should be seriously restricted by war time conditions.

On

hsm -2- No. 2232, November 1, 1 p. m., from London

On the other hand, British Government purchases abroad are bound to be greatly increased. It is impossible at the present stage to make more than a very preliminary estimate of what these purchases will be, but on the basis of such estimates as we have been able to make United Kingdom expenditure in the United States is likely, during the first year of the war, to be round about one million sterling in excess of what is likely to be spent by the United States in the United Kingdom, and this figure will probably increase as the war goes on.

A similar position holds as regards Canada, where it is probable also that British expenditure will exceed Canadian expenditure in Great Britain, all transactions visible and invisible included, by not far short of one hundred million pounds in the first year of war.

In view of magnitude of this excess expenditure it has been, as you know, necessary for us, in order to concentrate the dollar resources available to us on the purchase of commodities essential for the prosecution of the war, to prohibit the importation, except under license, of a large variety of goods. Faced as we are by the very grave exchange situation explained above, we feel that at a time when we have had actually to refuse dollars to the fighting services for purchases which they would

otherwise

ham - 3 - No. 2232, November 1, 1 p. m., from London

otherwise have made abroad, we could not defend the further purchase in the United States of commodities not strictly required in this country and we propose to add a certain number of further items including apples and pears as from an early date to the list of goods which can only be imported under license. (Machinery is also being added to the list, but this is for the purpose of regulating not reducing the total imports.) We have already explained our position in respect of films and tobacco.

It is with the greatest regret that we feel bound to take action of this nature and you will appreciate that it is dictated solely by necessity, having regard to the state of our dollar resources. We have no intention whatever of using the reduction of certain imports from the United States which is forced upon us by the war for the purpose of altering permanently the channels of trade and we intend as soon as may be possible to return to our normal peace time commercial policy as laid down in the Trade Agreement with the United States, but as the war goes on and as the pressure upon our exchange resources increases it will we feel be inevitable that even more stringent restrictions should be imposed. As explained above there will be no overall reduction of imports, but purchases of certain goods must be reduced in order to

enable

hsm -4- No. 2232, November 1, 1 p. m., from London

enable other purchases to be increased. We wish to give the United States Government the earliest possible advance notice of the position and we confidently trust that the United States Government will appreciate the position in which we are placed and will understand that no discrimination against the United States is in our minds other than what is forced upon us by the exigencies of the war."

KENNEDY

HPD

RECEIVED

NOV 1 1941

THE SECRETARY OF THE ARMY
WASHINGTON, D. C.

Dated: November 1, 1939 *Chang Kia-NGAU*

Rec'd: November 2, 1939

TELEGRAM RECEIVED FROM MINISTER CHANG KIA-NGAU, CHUNGKING
TO MR. K. P. CHEN, NEW YORK

PLEASE ARRANGE WITH KEESHIN AND WASHINGTON OUR DESIRE
PROLONG SHEAHAN ASSIGNMENT ANOTHER THREE TO SIX MONTHS IN VIEW OF
IMMINENT REORGANIZATION OF HIGHWAY ADMINISTRATION WITHIN MINISTRY
BELIEVE ACTION WILL ENABLE OUR GOVERNMENT GETTING BENEFIT FROM HIS
ACTUAL CONTACT WITH NEW SYSTEM.

Treasury Department
Division of Monetary Research

Date 11/2/39 19

To: Miss Chauncey

From: H. D. White

Mr. Perkins would like to have the Secretary read the appended report.

I have had it summarized for his convenience.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 1, 1939

TO Mr. White

FROM Mr. Eddy

Subject: Summary of Mr. Milo Perkins' speech before the National Association of Food Chains on the "Agricultural Aspects of the Food Stamp Plan Operations", October 10, 1939

"The project has received splendid support from all branches of the food trades."

The plan allows persons on relief to raise their average food cost per meal from 5¢ to 7½¢. (It is not certain, however, to what extent more food is bought or to what extent the saving is used for something else.)

The following table (condensed) shows first, the products for which the blue stamps have been used in the five experimental cities, and second, the estimated proportion of each crop which might be bought with blue stamps if the plan were extended to the whole relief population:

	Use of blue stamps in experimental cities - percent of total <u>blue stamps</u>	Percent of total domes- tic consumption which might be bought with blue stamps if plan is extended
Butter	25 %	14 %
Eggs	25	14
Wheat flour	10	5
Cornmeal, rice, dry beans and dried prunes	10	average over 20
Fresh fruits and vegetables	30	-
	<hr/> 100	<hr/>

Apparently only 3/4 of those eligible use the blue stamps in the experimental cities.

It is not known to what extent the blue stamp purchases are net increases and to what extent a displacement of cash purchases that would have taken place without the plan.

The plan holds important possibilities of helping both producers of surplus commodities and people on relief. It can be extended to the whole country in 2 or 3 years. All factors involved can cooperate effectively without dictatorship. The plan can be made flexible. Better than the stamp plan for all concerned, however, is the increase of individual incomes through greater employment.

F. S. C. No. 1007

FEDERAL SURPLUS COMMODITIES CORPORATION

MEMORANDUM

16-6600

10/30/39

From the office of Milo Perkins.

Confirming our phone conversation
of today.

Release - 1:00 P.M., CST, Tuesday, October 10, 1939

AGRICULTURAL ASPECTS
OF
FOOD STAMP PLAN OPERATIONS

Summary of statement by Milo Perkins, President of the Federal Surplus Commodities Corporation, at the Sixth Annual Meeting of the National Association of Food Chains, in Chicago, Illinois, on Tuesday, October 10, 1939.

The mechanical operations of the Stamp Plan are well known to all of you. The project has received splendid support from all branches of the food trades, from farm organizations, from local chambers of commerce, from public and welfare officials in the various states, and from the persons using the stamps to secure an additional two and one half cents worth of surplus foods a meal for each member of the family. This is in addition to the average of five cents a meal which such persons previously were spending for food. A gradual expansion of this program already has been announced by the Secretary of Agriculture.

It is too early to draw final conclusions as to the ultimate agricultural significance of this method of distributing surplus commodities. The preliminary figures now available, however, are of great interest to every farmer in America. First of all, we can see how persons getting public aid are using their blue stamps on a wholly voluntary basis.

Based upon our experience to date, it appears that about one-quarter of the stamps are being used for butter and another one-quarter for eggs, two products which are produced very widely on our farms. About 10 percent of the added purchasing power is being used for wheat products. Approximately 31 percent is being divided among the fresh fruits and vegetables, according to the consumer's selection and the commodities which have been on the list thus far. Corn meal, rice, soy beans, and dried prunes are each receiving over 2 percent of the blue stamp expenditure as a result of the new buying by needy families. The following table brings out these figures in more detail:

Table 3

Percentage Distribution of Commodities Secured with Blue Stamps in Five Cities
May 16 - August 26, 1939

Commodity	May 16 - July 15					July 16 - August 26				
	1	2	3	4	5	6	7	8	9	10
Butter	33.1	25.8	34.9	30.0	19.3	33.2	19.0	11.6	23.4	24.7
Eggs	30.7	26.6	23.7	27.2	26.3	23.4	19.7	12.4	18.1	10.1
White Flour	8.1	9.7	7.7	7.7	6.3	8.2	20.7	25.1	18.1	10.1
Grains Flour	.07	1.1	7.7	.07	.4	.4	.16	.38	.08	.08
Total Flour	8.17	9.8	14.4	7.77	6.3	8.6	20.86	25.36	18.18	10.18
Corn Meal	9	2.1	1.0	4	2.0	1.0	6.8	5.9	2.2	2.4
Rice				1.4	2.6	2.2	5.6	4.4	2.4	2.4
Dry Beans	2.4	4.0	4.7	1.4	4.3	2.2	6.2	10.3	3.8	3.8
Dried Peas	2.0	2.7	3.4	1.4	2.1	2.2	6.2	10.3	3.8	3.8
Oranges	19.4	22.3	4.3	1.1	2.1	2.2	5.7	5.2	2.2	2.2
Grapefruit	3.7	7.1	5.0							
Peaches										
Total Fresh Fruits	23.1	29.2	9.3	9.3	12.0	8.6	3.0	11.6	10.3	10.3
Cabbage				1.0	2.5	1.0	2.6	1.8	1.7	1.7
Peas				10.3	14.5	9.6	10.6	12.4	12.0	12.0
Tomatoes				3.7	3.5	1.0	2.8	4.2	3.3	3.3
Onions				2.3	4.5	1.5	3.7	1.8	3.0	3.0
Total Fresh Vegetables	10.3	10.8	7.0	5.3	5.3	5.3	3.6	3.6	3.6	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/1. Seattle data during this period inadequate. /2. First half-month of program only.

/3. City distribution weighted by the number in Mar, 1939 receiving public assistance in states surrounding these cities.

House of date:

Economic Analysis Section, Stamp Division, Federal Surplus Committee Corporation, September 14, 1939.

I should like to call your particular attention, however, to the situation with respect to sales of flour and corn meal. Important as the indicated increases are from the consumers' and the

On the basis of the foregoing assumptions, it is interesting to note that the Stamp Plan offers a potential annual market for over 300 million pounds of butter, about 352 million dozen eggs, over 25 million bushels of wheat in the form of flour, over 5 million bushels of corn in the form of corn meal, about 140 million pounds of rice, over 57 million pounds of prunes and about 227 million pounds of dry beans. For fresh fruits and vegetables there is a tremendous potential market. Given purchasing power, poor people will buy trainload after trainload of citrus, tomatoes, cabbage, peaches and other fruits and vegetables.

From an agricultural point of view, these figures have great significance. The Stamp Plan makes possible a much broader market for farmers producing those commodities for which there is an elastic demand, such as dairy products, poultry products, fruits, and vegetables. The early figures indicating sharp increases in the consumption of rice and beans give a more hopeful picture than we anticipated. This wider distribution will do more than provide a new market for surpluses; ultimately, it can bring about a better price level for an entire crop, especially in the case of those commodities which happen to be selling very much below parity.

This is interesting evidence, crop by crop, of the untapped market for American farm products here at home among our underfed families. Every farm leader in the country will want to watch these figures as they change from time to time. He will want to watch the demand for different products as they are added to the surplus list. It may be another year, however, before we can say with certainty, as far as any particular commodity is concerned, that a new market exists on anything like a permanent basis. The plan has not been in operation long enough to measure seasonal changes accurately, nor is it widespread enough to be sure that the food preferences of some 150,000 persons as shown for a few months are a true index to what the national appetite of this group might be over a longer period of time. There must be a continuing, running analysis for some time yet if we are to get a more reliable measure of the effects of the Stamp Plan upon our agricultural economy.

With that warning, — and treating the figures, therefore, as somewhat of a statistical curiosity, — we can speculate on the possible agricultural significance of the Stamp Plan if it were operating upon a national basis. In other words, let us project the increased market for surplus commodities which might exist if the program were in operation throughout the country — if every eligible family bought the same percentage of surplus foods as those which were purchased in five cities for a few months, and if participation of eligible families throughout the nation were upon the same basis as that in a few experimental cities. The term "eligible families", as used here, refers to those now receiving some form of public assistance and does not include low-income, privately employed persons such as those in Shawnee, Oklahoma, who now are participating in the Stamp Plan in that one city upon a wholly experimental basis.

About 20 million people are included in the total number of families which are now receiving some form of public aid. If the same percentage of persons took part in a national program as has been the case in the experimental cities, the group of participating eligibles would include about 15 million individuals. This does not necessarily mean that we are currently planning to have the Stamp Plan extended to that many people, however. Many factors will influence the extent to which the plan can be expanded. As an illustration, we do not believe that it is wise administratively to think in terms of reaching the entire relief load in anything short of two or three years even if other circumstances made it desirable to do so. By that time, of course, the size of the relief load may have changed considerably.

millers' points of view, they hold relatively little promise for farmers growing wheat and corn. In both cases, the increase in the number of bushels which might be consumed as flour and corn meal would represent only a fraction of the total crops now being produced. Lard is already on the surplus list and if other pork products should be added later in the year, the outlet for corn would be increased. Were the Stamp Plan operating on a National basis, with livestock products included on the surplus list, a very significant market would be opened for our farmers in the Corn Belt.

The figures upon which the estimate of new markets are based appear in more detail in the table which follows:

Table II

Preliminary Estimates of Possible Purchases of Certain Surplus Commodities Under a National Stamp Plan and 1928-37 Average Domestic Consumption of These Commodities

Commodity	Approx. Price		1928-37 Average Domestic Consumption		Blue Stamp Purchases as % of 1928-37 Average Consumption
	% of Total Expenditure for Each Commodity or Commodity Group	Stamp Purchases on a National Basis	1928-37 Average Domestic Consumption	as % of 1928-37 Average Consumption	
	Per Cent	Unit Million Units	Million Units		Per Cent
Wheat	23.4	lbs.	301	2,191	13.7
Wheat Equivalent (in bushels)	10.16	bu.	26	484	5.4
Corn Meal	24.7	lbs.	332	2,602	13.5
Corn Meal Equivalent (in bushels)	2.2	bu.	5.5	49.2	13.4
Rice	2.4	lbs.	140	709	19.7
Dry Beans	3.9	lbs.	227	900.3	25.2
Dried Peas	2.2	lbs.	57	228	38.6

Fresh Fruits & Vegetables 21.3

1. Estimate supplied by Program Coordination and Development Division, Bureau of Agricultural Economics; allowance is made for farm to retail market waste.

2. Merchant mill consumption.

3. Not including canned bean consumption; partially estimated.

4. The distribution among these obviously depends on the number of commodities on the list and the season of the year. When oranges and grapefruit alone were on the list in 3 cities, they accounted for 24 percent of the total blue stamp expenditures. As indicated in Table I, when more commodities were added, up to August 29, peaches accounted for 10.3 percent of the total, tomatoes 8.3 percent, cabbage, onions and pears from 3 to 3.5 percent each, and pears 1.7 percent.

Source of data: Economic Analysis Section, Stamp Division, Federal Surplus Commodities Corporation, United States Department of Agriculture.

There are a few other qualifications we must keep in mind with regard to this table:

- (1) The calculations are based on experience to date. Subsequent experience will require modifications, particularly if there is a considerable change in the variety of commodities on the surplus list.
- (2) They are based on prices existing up to September. Radical price changes would alter the consumer purchases.
- (3) It may not be true that all of these purchases will be additional purchases. For some commodities and in some regions among some families, a part of these purchases at least, probably would be made in the absence of a program. The extent to which these potential purchases represent a net increase in the demand for agricultural commodities is of primary significance. Although no final conclusions on this subject can be reached from the data now available, considerable study is being and will continue to be directed toward this phase of the subject. The preliminary figures are very encouraging.
- (4) On the other hand, these calculations are limited to the potential effect of purchases by relief families only and do not take into account any possible increase of purchases by other families. As a result of special food drives and lower distribution charges made possible by an increased volume of business, a still greater consumption of surplus foods by the entire population can be brought about. Re-employment, of course, will bring about this result even more quickly.

After nearly five months experience with the Stamp Plan, we have ample proof of the splendid job which the food traders have done by way of pushing sales for farmers with surpluses to sell. Farmers, business men, and those of us who work for our government have learned that we can get better results by tackling a tough job together. That pattern of business-like cooperation may be more important than the Stamp Plan itself. Many of us who attended the first two-day meeting of the Agricultural Advisory Council, recently called by Secretary Wallace, felt that it was. That Council meeting was attended by agricultural leaders, labor leaders, and business leaders as well as by government officials. They were as one man in their surmise that the heavy responsibilities which are ours because of war in the world can be discharged without resort to regimentation. The present world emergency is a challenge to every major group in America. It's up to us to prove that we are capable, as a people, of making economic democracy work for the good of all without resort to the methods of the dictators.

The war already has had a pronounced effect upon our agricultural situation. Many prices, which were at abnormally low levels during the summer, have now advanced somewhat. If the war drags out, a better export demand may be felt for some products and a poorer one for others. The situation is a constantly changing one. Thanks to such machinery as the ever-normal granary, however, we have abundant and adequate supplies of foodstuffs for our own people.

The prices of many surplus agricultural commodities are still too low to bring about a situation where the returns to farmers will have a fair exchange value with city goods which farmers must buy. As long as this condition exists, and as long as there are millions of our own citizens with inadequate diets, we feel that the Ford Stamp Plan should be extended gradually to sections of the country where it has not yet been placed in operation.

Within each city, however, there is a possibility that the number of families eligible to participate will decline if the current trend toward fuller employment continues. That will please no one more than it will please us. A man with a job at good wages provides the farmer with

a broader market than we can afford to make possible through our food stamps, and he provides the grocer with a greater volume of business than he is now getting even in cities where the Stamp Plan is in operation.

From the very beginning of the Food Stamp Plan we have tried to build its administrative machinery upon an "accordion basis". In times of great agricultural surpluses, which usually are accompanied by great unemployment, it will be there to do a minimum job in terms of minimum diets below which the public health would be endangered. The broader market thus made possible for our farmers in times of stress will help to stabilize our whole economy. In times of fuller employment, however, it can and should be restricted to the fewer families who would still be eligible for such assistance.

I should like to repeat that both the farmers and the grocers make more money out of men with good jobs than they do out of men buying a mere seven and one-half cents worth of food a meal with stamps. Everyone of us in this room lives in a family where the food expenditures are at least three or four times that amount. Good times are likely to be followed by bad times, however, and a mechanism like the Stamp Plan can serve the general welfare if it is contracted to a mere skeleton in times of great prosperity, but kept alive so that it can be expanded in times of depression to help cushion the shock. These are the policy terms in which we are thinking during these difficult days when no one can see very far ahead.

It is expected that the commodities included on the surplus list will change from time to time. In addition to the usual seasonal factors, disturbed world conditions may affect the variety of commodities on the surplus list. On the other hand, there are adequate and in many instances surplus supplies of a great many nutritive foods which can be expected to remain on the list. Some commodities, such as citrus fruits and possibly pork products, may be added later during the year.

not read

W

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 1, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market experienced another quiet day. Sterling opened at 4.00 and about noon, some commercial demand appeared in the market. The rate rose to 4.00-3/8, and about mid-afternoon there was a little selling of sterling. The rate then eased off and closed at 4.00-1/8.

Reporting banks in New York and the Federal Reserve Bank reported sales of sterling totaling £237,000, from the following sources:

Commercial concerns.....	£178,000
Foreign banks (Europe and Far East).....	£ 59,000
Total....	£237,000

Purchases of sterling amounted to £194,000 as indicated below:

By commercial concerns.....	£130,000
By foreign banks (Europe and Far East).....	£ 64,000
Total....	£194,000

The banks also reported that the British Control purchased sterling amounting to £15,000 at the official rate of 4.02.

The belga improved today to close at .1667, as compared to yesterday's close of .1664.

There was little interest displayed in the other important currencies and the rates fluctuated in a narrow range.

We purchased from the Netherlands Bank \$2,500,000 in gold from their earmarked account.

The Federal Reserve Bank reported to us the following shipments of gold to this country from India, for sale to the U. S. Assay Office at New York:

- \$ 490,000 consigned to the French American Banking Corporation, New York
- 831,000 consigned to the Chase National Bank, New York
- 1,798,000 consigned to the National City Bank, New York

\$3,119,000 Total

CONFIDENTIAL

- 2 -

On the report of October 25 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 \$20,129,000, an increase of \$1,706,000 in the short position for the week. The net changes in positions are as follows:

<u>COUNTRY</u>	<u>SHORT POSITION</u> <u>OCTOBER 18</u>	<u>SHORT POSITION</u> <u>OCTOBER 25</u>	<u>INCREASE IN</u> <u>SHORT POSITION</u>
England	\$ 6,624,000	\$ 6,874,000	\$ 250,000
Europe	7,482,000	8,424,000	942,000
Canada	273,000	628,000	355,000
Latin America	364,000	286,000	78,000 (decrease)
Far East	3,607,000	3,851,000	244,000
All Other	73,000	66,000	7,000 (decrease)
Total	\$18,423,000	\$20,129,000	\$1,706,000

In New York we made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act.

Mr. Knoke telephoned me that as of this afternoon the balance of the Russian State Bank with the Chase National Bank was \$4,900,000, as compared with \$4,300,000 on October 27. A payment of \$1,000,000 into this account had been received from Sweden. The balance of the Amtorg with the Chase had been reduced from \$1,100,000 on October 27 to \$700,000 today.

CONFIDENTIAL

Farm Ed. Foley 27

Jan 1, 1939

11.25 A.M.

STATEMENT OF FACTS

In April, 1933, Joseph Schenck, head of United Artists, Inc., entered into a contract with Darryl Zanuck for Zanuck's personal services as a producer and director of motion pictures.

In May, 1933, Twentieth Century Pictures, Inc., was incorporated. Joseph M. Schenck and William Goetz were sole stockholders of record. Goetz acted as trustee of the Mayer Family Trust which his father-in-law, Louis B. Mayer, had created.

Schenck invested \$350,000 in Twentieth Century. The Mayer Family Trust also invested \$350,000 in the enterprise. Schenck and Goetz each received 3,500 shares of preferred stock having a par value of \$100 a share.

The common stock of Twentieth Century consisted of 100 shares. Schenck and Goetz each received 50 shares.

Upon the organization of Twentieth Century, Schenck assigned to Twentieth Century a written personal service contract between Zanuck and himself which provided for a weekly salary of \$4,000 plus 10 per cent of the net profits.

Zanuck's personal service contract was revoked in March, 1934. A new written contract was made under which Zanuck was permitted to buy 10 shares of the common stock owned by Schenck and 10 shares of the common stock owned by Goetz at a nominal price of \$100 a share. His salary was reduced from \$4,000 to \$2,000 a week and he was permitted to retain \$100,000 which had been advanced to him by Schenck in anticipation of Zanuck's 10 per cent share of the net earnings under the original personal service contract.

Zanuck then had a 20 per cent interest in Twentieth Century for the nominal sum of \$2,000.

In his tax return for the year 1934 Zanuck did not report the income represented by his purchase of these 20 shares at a nominal price of \$100 a share. In September 1936 a revenue agent reopened Zanuck's return for the year 1934, and recommended that Zanuck and his wife be assessed an additional tax of approximately \$100,000 based upon a book value of \$10,100 per share.

In August, 1935, a merger was effected between Twentieth Century, Inc., and Fox Film Corporation under a plan of reorganization which required Twentieth Century, Inc., to transfer all of its assets to Fox Film Corporation in exchange for stock in Fox Film Corporation. The name of Fox Film Corporation after the merger was Twentieth Century-Fox Film Corporation. The name of the old Twentieth Century Pictures, Inc., was changed to S-G-Z Corporation, and it was shortly afterward dissolved.

In effecting the merger two classes of stock were issued. The preferred stock represented the assets of both corporations. The book value of Fox assets was approximately \$37,000,000. The book value of Century assets was approximately \$4,000,000. Preferred stock in the amount of 1,358,000 shares was issued, each share being valued for purposes of the merger at about \$30 a share. Fox stockholders received 1,226,000 shares of preferred stock and Century stockholders received 132,000 shares of preferred stock on the basis of the respective assets of the two corporations.

- 2 -

The common stock was treated for purposes of the reorganization as if it had no monetary value. The old stockholders of Fox received the new common stock on the basis of one-half share of common for each share of new preferred, i. e., 613,000 shares of common stock. An equal amount of common stock was issued to stockholders of Century.

When received by Century the preferred stock was allocated in accordance with the stockholdings of record, that is 40 percent to Schenck, 40 percent to Goetz and 20 percent to Zanuck. The common stock was divided on the basis of 35 percent to Schenck, 35 percent to Goetz and 30 percent to Zanuck. Although Schenck through manipulation of the asset value per share of preferred stock apparently made it appear to Zanuck that Zanuck was receiving 30 percent of the preferred as well as 30 percent of the common and that Goetz and he only 35 percent of the preferred, this was not actually the fact. This trickery of Zanuck is relevant only because it tends to establish that stock holdings of the taxpayers were in fact the same as they were of record, namely 40 percent in Schenck, 40 percent in Goetz and 20 percent in Zanuck.

The actual distribution among Century stockholders of the new preferred stock in Twentieth Century-Fox was as follows:

	<u>Total Shares</u>	<u>Zanuck</u>	<u>Goetz</u>	<u>Schenck</u>
To Preferred stockholders: \$700,000 at \$30	22,000	—	11,000 (50%)	11,000 (50%)
To Common stockholders: Balance Preferred stock (Basis 20-40-40)	<u>110,000</u>	<u>22,000 (20%)</u>	<u>44,000 (40%)</u>	<u>44,000 (40%)</u>
	132,000	22,000	55,000	55,000

The purported distribution among Century stockholders of new preferred stock in Twentieth Century-Fox was as follows:

	<u>Total Shares</u>	<u>Zanuck</u>	<u>Goetz</u>	<u>Schenck</u>
To Preferred stockholders: \$700,000 at \$12 per share (asset value reached by working backward on Schenck's orders)	59,000	—	30,000	30,000
Balance Preferred stock to Common Stockholders: (Basis 30-35-35)	<u>73,000</u>	<u>22,000 (30%)</u>	<u>25,000 (35%)</u>	<u>25,000 (35%)</u>
	132,000	22,000	55,000	55,000

The distribution among Century stockholders of the new common stock in Twentieth Century-Fox was as follows:

<u>Total Shares</u>	<u>Zanuck</u>	<u>Goetz</u>	<u>Schenck</u>
613,000	183,000 (30%)	214,000 (35%)	214,000 (35%)

The 613,000 shares of common stock of Fox received by Century and later distributed to Schenck, Goetz and Zanuck when Century dissolved may have been paid for the good will and the cancellation of personal service contracts which Century had with Zanuck and Schenck.

Century which had a high earnings record might have refused to enter into the merger without adequate compensation for the risk in the form of a 50 per cent out of future earnings. This would ordinarily be accomplished through an equal distribution of the common stock between Fox and Century since the preferred stock had been issued against the assets.

There is nothing in the Internal Revenue Code which appears to require that after a merger the new stock holdings be in the same ratio as the asset values of the merged corporations in order to constitute a nontaxable reorganization.

The very fact that there is a reorganization implies a bargaining power on the part of the corporations which are parties to the reorganization. If one party is able through superior borrowing power to obtain what appears to be a disproportionate amount, this excess may be ascribed to the superiority of that party's bargaining position.

But that is not all that there is to this case. The manner in which the common stock allocated to Century is divided among the shareholders in Century is persuasive evidence that here is something which is not a normal reorganization, nor germane to a normal reorganization. After providing for the return of the capital invested in preferred stock in Century, the new preferred stock was distributed to the common stockholders in Century in accordance with their stockholdings.

The 35-35-30 division of common stock was not in accordance with the holdings of 40-40-20, and was not in accordance with usual corporate practice upon liquidation after a reorganization.

Shareholders in Century might, of course, make a private deal among themselves. But if there were such a private internal arrangement among the stockholders of Century, it was extraneous to the reorganization. It was the lark on the back of the eagle.

This is illustrated by article XI of the plan of merger which provided that Century and its stockholders agreed to transfer the new preferred and new common stock to the stockholders of Century "in the proportions set forth in Exhibit E hereto annexed and made a part hereof, solely in exchange for the Century stock held by such Century stockholders." Having in mind Zanuck's stock in Century and the proportions set forth in Exhibit E (which were not in accordance with the actual stockholdings), it is rather apparent that there was enmeshed upon the reorganization plan an artifice not germane to the reorganization. The purpose was to cloak the income received by Zanuck with the immunity of a nontaxable reorganization.

In addition to the distribution to which Zanuck was entitled by reason of the distribution of Fox stock to Century stockholders, Zanuck had apparently exacted a further consideration in return for his consent as a common stockholder of Century to the reorganization plus his entering into a new personal service contract with Twentieth Century Fox.

Of course, cash need not pass in order that taxable income be realized. Instead of receiving cash, Zanuck received stock over and above his pro rata share in Century. This income is taxable and should have been returned by Zanuck in his 1935 return.

The facts disclosed by the investigation tend to show that Zanuck willfully attempted to evade his income tax. Curiously, however, the deficiency due to Zanuck's fraud is diminished to the extent of the fraud perpetrated by Schenck on Zanuck. In other words, if the preferred stock, as distinguished from the common stock, of the new Twentieth Century Fox Film Corporation was distributed to Zanuck on a 40-40-20 basis in accordance with his basic holdings in Century, then the amount which he got to boot over his proportionate share consists of about 62,000 shares of common stock. On the other hand, if the new preferred stock was distributed on a 35-35-30 basis, as Zanuck has been led to believe by Schenck, the deficiency in Zanuck's income tax due to Zanuck's fraud is increased by the market value of the excess shares of preferred stock which he received.

Were it not for the disproportionate distribution, the non-taxability of the reorganization would probably not be questioned. But this fact, considered in the light of such events as the withholding of Exhibit E from the plan of merger submitted for a ruling by the Commissioner of Internal Revenue, the attempts to conceal the telegraphic communications between Zanuck and Schenck showing the true nature of the transaction, the submission of apparently false and misleading affidavits to the Bureau of Internal Revenue, the obvious evasiveness of Zanuck and Schenck when questioned at the Department of Justice, the evidence of the bribery by Zanuck's former business agent of the Internal Revenue Agent who first found that Zanuck had failed to report his 1934 income properly, and similar indications of intent to conceal, warrants a grand jury investigation for the purpose of shedding more light on the criminal aspects of the case.

In addition to establishing Zanuck's civil and criminal liability such a grand jury investigation might also bring out more fully the motives back of Schenck's sudden altruistic endeavors to protect Zanuck, as well as Schenck's own civil and criminal liability in connection with his deduction for a sham loss on the sale of stock and false deductions for business expenses, as asserted in the letter to the Acting Assistant Attorney General from the Acting Commissioner of Internal Revenue dated July 14, 1939.

The reports of the Intelligence Unit upon which the tax liability in this case is predicated disclose utter lack of respect for law and a contempt for civic obligations by several of the principals involved. In assessing income taxes, the Government must rely to a large extent upon the disclosure by taxpayers of all relevant facts. To discourage fraudulent attempts to evade taxes, Congress has, therefore, imposed criminal as well as civil sanctions. The utility of the fraud penalty as a remedial sanction in safeguarding the revenues of the Government is not impaired by the collateral use of the criminal sanction; and an indictment and trial for the making of a fraudulent return is more effective as a deterrent than a hearing before the Board of Tax Appeals in a civil case. The oft-quoted rule which excludes from consideration the motive of tax avoidance is not pertinent to a situation such as this in which taxpayers knowingly try to hide the truth.

November 1, 1939.

Mr. Colman

MEMORANDUM FOR MR. IREY:

ny

The following was received from Naval Intelligence at 3:45 p.m., this date.

This is additional to the information received from them on the same subject at 10:10 a.m., this morning:

"A Mr. Rhineland, representing Morgan and Company, New York, conferred in Baltimore today with an insurance company, relative to the shipment of \$750,000,000 in securities (mostly U. S. Steel) in \$50,000,000 lots on neutral ships to the United States from The Netherlands."

T

B. M. Thompson.



11-1-39

FROM: MR. GASTON'S OFFICE

32

TO: The Secretary

A message from Burton, in the Hall plane from
Floyd Bennett, came through at 2:25 . It was
timed 12:10. He said that on account of
"generally poor weather conditions" he was returning

A handwritten signature in dark ink, appearing to be 'MSB' with a long, sweeping underline.

S S Coulmore ✓

11-1-3

FROM: MR. GASTON'S OFFICE

33

TO: The Secretary

Burke reported at 12:30 flying weather had become dangerous and he was returning. His position then was 285 m east of Nantucket and about 35 miles west of last reported position of Coulmore. He had been unable to communicate with the Bibb. No report from Burton, who left Floyd Bennett 38 minutes earlier than Burke. The Campbell reports heavy weather, fresh southerly gale with fog and rain.



S.S. Coulmore

NOV 1 1939

My dear Mr. Somers:

For your information, I am enclosing a copy of a letter I have just sent to the Speaker in reply to his inquiry concerning the use of the Stabilization Fund.

If I can be of any assistance in the way of supplying additional information concerning the Stabilization Fund during the course of the debate on the neutrality legislation I shall be happy to do so.

Very truly yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Hon. Andrew L. Somers
Chairman, House Committee on Coinage,
Weights, and Measures
House of Representatives
Washington, D. C.

Enclosure

Delivered in person by L.J. Bernard approximately at
11:30 a.m.

Initialed BB EHFJr and HDW

EHF:s Typed 11/1/39

November 1, 1939

35

Regarded Unclassified

My dear Mr. Speaker:

You have informed me that in connection with the present consideration of the neutrality legislation by the House of Representatives there has been discussion concerning the use of the stabilization fund as a means of lending money to and aiding a belligerent country to finance the war. You have asked me for an expression of my views concerning this matter.

The stabilization fund was created pursuant to Section 10 of the Gold Reserve Act of 1934 which provided in part as follows:

For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, 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 this section. * * *

Congress by legislation in 1937 and 1939 has continued these stabilization powers until June 30, 1941.

As is made clear by the above-quoted provision, the stabilization fund may lawfully purchase foreign exchange only for the purpose of stabilizing the exchange value of the dollar. It has been for this purpose and not for the purpose of supporting the currencies of any foreign country that the fund has from time to time acquired foreign currencies. Furthermore, I should like to state that the stabilization fund is not acquiring

- 2 -

any currencies of belligerent countries and is at present holding 745 pounds sterling (approximately \$2,980) and 3,652 French francs (approximately \$82) which were acquired long before the outbreak of the war.

When I appeared before the House Committee on Coinage, Weights and Measures last March in connection with the bill to extend the stabilization powers, the following colloquy took place between Congressman Andresen and myself:

"MR. ANDRESEN. Yes. And we hear a good many remarks made about the activities of the Treasury and other agencies of the Government, and I want to ask you this: In connection with the stabilization fund, has any of the stabilization fund been used in any manner to finance a foreign government in the purchase of armaments or any other war supplies?

"SECRETARY MORGENTHAU. I can answer that under oath to that question: No.

"And I will answer further. As long as I am Secretary of the Treasury and as long as Congress gives me that responsibility, the answer is no. I answered yesterday to it before the Senate committee, and I would like the privilege of answering here again. If we ever become involved in any war, I would come to this committee, and to the committee before the Senate, and ask for guidance and directions as to how I should conduct myself in relation to the stabilization fund.

"MR. ANDRESEN. Then this fund, from your answer, is to the effect that it is not used in any manner as part of the foreign policy of this Government with reference to supplying war supplies to any other country?

"SECRETARY MORGENTHAU. Mr. Congressman, under oath, it is not used that way, directly or indirectly."

When I appeared before the Senate Committee on Banking and Currency, Senator Taft raised the following questions:

"SENATOR TAFT. Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?

- 3 -

My reply was as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

My replies to the foregoing inquiries remain the same, and I would like to reaffirm the position which I took at that time before the House and Senate committees.

I am also enclosing as of possible interest in this connection copies of a recent exchange of correspondence which I have had with Senator Vandenberg.

I trust this furnished you with the information that you desire.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William B. Bankhead,
House of Representatives.

Enclosure.

EB:msm

Retyped by fa (third page)

11/1/59

Delivered in person by L. J. Bernard approximately at 11:30 a.m.

Initialed BB EHFJr HDW

UNITED STATES SENATE

Committee on Finance

October 17, 1939.

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

My dear Mr. Secretary:

I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries.

I should also appreciate your viewpoint on another phase of this problem. I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned? If we put our foreign trade with belligerents on a strict "cash and carry" basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply? Would this not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard? Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?

I am not asserting any pre-conceived judgments of my own in submitting these questions to you. I am simply seeking information from authentic sources and I shall greatly appreciate a reply within the next few days.

With warm personal regards and best wishes,

Cordially and faithfully,

(Signed) A. H. VANDENBERG

October 24, 1939.

My dear Senator:

I should like to answer in some detail the questions in your letter of October 17, so as to clarify certain aspects of problems relating to gold.

You write:

"I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned?"

I am uncertain what you mean by this question. It is subject to several different interpretations and to make certain that you obtain the information you ask I will endeavor to answer each of them separately.

1. Does the question ask whether the foreign seller of gold receives more purchasing power over goods and services here than he did prior to depreciation? If that is the sense of your question then the answer is "No". The \$35 per ounce (less 1/4 of 1 percent) which the foreign seller of gold receives probably represents less and certainly not more purchasing power in terms of goods and services in this country than it did before the depreciation of currencies in recent months. Such purchasing power of \$35 in the United States varies, of course, with changes in prices of goods and services in the United States. Since most goods and services that can be purchased here by a resident of a foreign country have risen in price during the past two months, it follows that the foreign seller of gold probably gets less goods and services for his \$35 now than he did a few months ago.

2. Does the question ask whether the foreigner can get more units of his own currency for gold by selling it in the United States than by selling it in his own country? If this is the sense of your question, again the answer is "No". We pay no higher price for gold (allowing for commissions, handling charges, etc.) than other countries do. After a foreign seller of gold converts the dollars he obtains for his gold into sterling, for example, he finds that he has approximately

the same amount of money as he would have had if he had sold that gold in London. (For a further explanation of this I refer you to pages 7, 8 and 9 of my letter to Senator Wagner, dated March 22, 1939, a copy of which is enclosed for your convenience.)

3. Does the question ask whether the foreign seller of gold gets more units of his local currency for his gold now than he did before the depreciation of his currency? If this is the sense of the question, the answer is clearly "Yes". That is exactly what depreciation of a currency in terms of gold means, namely, that each unit of a depreciated currency is exchangeable for less gold.

4. Does the question ask whether the greater number of units of the depreciated currency which the foreign seller obtains for his gold can purchase more goods and services at home than could the smaller number of units he obtained for his gold before depreciation? The answer to this question is "Probably yes". Prices in the country of a depreciated currency do not usually rise as much as the currency depreciates for a considerable period of time, if at all. During that period the holder or producer of gold will get more local goods and services for an ounce of gold than he did before. But he gets more goods only if he buys goods at home; furthermore, he gets more goods for an ounce of gold not because we continue to pay \$35 an ounce for gold, but because his own country gives more units of its currency for an ounce of gold.

When taken in the context of your whole letter one further possible interpretation of your question suggests itself. You may be asking whether the recent depreciation of foreign currencies will of itself lead to an increased inflow of gold. If this is the sense of your question, the answer is "Probably no". It is, of course, impossible to foretell at this time the total effect of a Europe at war upon our balance of payments. The specific effect of the recent depreciations of foreign currencies, however, would clearly seem to operate in the direction of a reduction in gold offerings. Depreciation of foreign currencies vis-a-vis the dollar means that American goods and services are less attractive to the foreigner because he must give more of his own currency in exchange for a dollar's worth of merchandise than formerly. In other words, the depreciation of foreign currencies is a factor which operates in the direction of reducing our exports to and increasing our imports from the countries involved. Thus the effect of the change will tend to reduce our favorable balance of trade and consequently such inflow of gold as may be attributable to our export surplus. It is true that price changes may in time offset the effect on the relative attractiveness of foreign and American goods initiated by the depreciation of foreign currencies. But even in normal times this adjustment usually does not take place for some time.

You ask the further question:

"If we put our foreign trade with belligerents on a strict 'cash and carry' basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply?"

The prohibition of credits to belligerent governments may possibly have the effect of reducing our exports to belligerent countries. This might in turn reduce the value of our total exports compared with what our exports would be were the prohibition not included in the Neutrality Act. Were the belligerent governments to purchase some of their imports from the United States on credit, a portion of the payments due us might be postponed. However, whether this postponement would result even in a temporary reduction in the inflow of gold cannot be forecast because:

(1) It is not known what proportion of the dollars used for payments would be acquired from the sale to us of gold, and what proportion would be acquired from other sources.

(2) It is not known whether an extension of credits to belligerents would result in greater purchases from the United States or whether there would simply be a substitution of some credit purchases for cash purchases. Only in the latter instance would it be possible for part of the inflow of gold to the United States to be postponed. In the former case it would mean that the gold inflow would be the same over the short period of time and would be greater at some subsequent time when credits were liquidated.

You ask this further question with respect to gold:

"Would this (increased inflow of gold) not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard?"

This war demonstrates, if any demonstration were needed, that gold constitutes the best form in which foreign exchange resources can be held. Even under the most difficult conditions of war, belligerent governments which possess gold can buy with it anything that is for sale.

- 4 -

The new situation in world trade brought about by the war in Europe will, of course, introduce some changes in the distribution of gold among the nations of the world. Belligerent countries will probably lose gold, but numerous neutral countries, which now have little gold, may be put in a position to increase their holdings as a result of improvements in their trade balances. As a consequence, the war may well have the effect of causing a wider distribution of gold among the countries of the world. Such an increase in gold holdings by many countries would give more countries a stake in the continuation of gold as a medium of international payments. The gold producing countries, of course — including the British Empire, which now produces half the world's gold — will continue to have a vital interest in the use of gold as a monetary metal.

These considerations, as well as others, indicate that gold will emerge from this disturbed period with added prestige as the international medium of exchange. For further discussion of the future usefulness of gold as a monetary metal, you may wish to refer to pages 16, 17, 18 and 19 of my letter to Senator Wagner referred to above.

Your last question on gold relates to a suggested change in our monetary policy. You ask:

"Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?"

I am not clear whether by re-pricing gold you have in mind an increase or a decrease in the price of gold. I judge from the context of your letter, however, that you are inquiring about the effects of a reduction in the dollar price of gold.

My views with respect to the consequences of reductions in the price of gold are fully set forth in my letter to Senator Wagner referred to above. The discussion appears on pages 13 to 16 of that letter, and I think it may be appropriately re-read in connection with your inquiry.

You raise the question of the advisability of reducing the price of gold "for the period of the war". Any substantial change in the price of gold which is known to be temporary would have seriously disrupting influences on trade and international capital flows. It would introduce a still greater risk element in business relations with foreign countries and would, moreover, increase world speculation in dollar exchange.

I now turn to the question in your letter referring to the Stabilization Fund.

- 5 -

You write:

"I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries."

When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

"Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?"

I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

The stabilization fund is not acquiring any currencies of belligerent countries and is holding only a trifling amount of foreign currencies of belligerent countries acquired long before the outbreak of the war.

I trust that this furnishes you with the information you requested.

Sincerely,

Enclosures.

(Signed) HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Honorable Arthur H. Vandenberg,
United States Senate.

-o-o-

NOV 1 1939

My dear Mr. Straus:

Receipt is acknowledged of your letter of October 30, 1939, referring to the discussion between your representatives and Mr. D. W. Bell, concerning the financing to be done by the United States Housing Authority within the next six to eight months to cover its needs for loans to be made to local housing authorities.

In reply, you are advised that in order to provide funds to meet your requirements over the next few months, the Treasury will be willing to purchase, up to an aggregate of \$15,000,000, the obligations of the United States Housing Authority pursuant to the provisions of section 20 (a) of the United States Housing Act of 1937, under a procedure similar to that followed in connection with the purchase by the Treasury of your Series "A" notes. It is suggested that the new notes be in the denomination of \$1,000,000 each and bear interest from the date of purchase by the Treasury at the rate of one-quarter of one per centum per annum, payable semiannually on December 31, 1939, and June 30, 1940, and mature on June 30, 1940.

If this arrangement is satisfactory to you, it is suggested that there be submitted for my formal approval, under section 20 (a) of the Act, the form of note to be issued by the United States Housing Authority.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Nathan Straus,

Administrator,

United States Housing Authority,

Washington, D. C.

By hand

WHE:vf
10/31/39

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 1, 1939.TO CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:58 a.m. with reference to the payments totaling about \$85,000,000 made to us for account of the Bank of England yesterday and today, receipt of which had not been advised to us by the Bank of England, and explained the reasons why we had to turn down \$28,000,000 offered us by the Guaranty Trust Company yesterday. I added that the latter item was now in order and that our cable advising him of receipt of this amount was on the way. Bolton was under the impression that a receipt cable had been duly sent to us and suggested that it might have gotten jammed with Government business. He explained that these payments represented accumulations in the accounts of the commercial banks acting as agent for the Bank of England and that the belated transfer was entirely due to the enormous amount of work which they had to do at the Bank of England. Similar payments might be effected from time to time in the future and he would see to it that we would get prompt advice beforehand.

I asked whether there were any news in the matter of payments to be made by us to Mr. Osborne to the debit of Bank of England's account with us. Bolton replied that they appreciated what we had done for them; that he was now waiting to hear from Osborne what amount he would need.

I referred to our telephone conversation of August 29, 1939 in which he informed us of certain payments to be made to us

OFFICE CORRESPONDENCE

DATE November 1, 1939.

TO CONFIDENTIAL FILES
FROM L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

2

representing proceeds of sales of American securities. As requested by them, we had in the past cabled them each time when these payments, which were in Clearing House funds, were effected. We wanted to suggest now, I continued, that instead of cabling on the day the funds were received, we would cable them only after the amounts had actually been credited to their account. That procedure, Bolton replied, would be entirely satisfactory to them.

I inquired as to the reaction in England to the shift in the Italian Cabinet and to Molotov's speech. As to the former, he had heard nothing at all. All arrangements with Italy were working smoothly and there seemed to be no friction of any sort. As far as Molotov's speech was concerned, it seemed to have caused more disturbance in Scandinavia than anything else, where obviously they saw their sovereignty threatened. In England the speech seemed to have brought on a little more cheerful atmosphere.

LWK:KW

RECEIVED

NOV 8 1939
FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED

NOV 10 1939
FEDERAL RESERVE BANK
OF NEW YORK

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: November 1, 1939, 11 a.m.

NO.: 1902.

In occupied Poland the same procedure of promptly gathering up the foreign exchange of added territory (as in the acquisition of Austria and the Sudetenland, and the protectorate) has begun. In an order dated October 17, issued at Lodz, the German-operated central bank of the occupied area, the Reichs Kreditkasse (reference: telegram of September 30, No. 1512, from the Embassy) has directed all individuals and firms to offer to the Reichs Kreditkasse or to a bank authorized by it to deal in foreign exchange, all the foreign currency, foreign securities, foreign checks and bills, and gold which they possess by October 31, and to offer all claims on foreign exchange as well as claims for payment in zlotys to be made by foreign concerns or individuals by the thirtieth of November.

The foregoing order will not result in Germany getting any substantial quantity of foreign exchange from Poland, according to Puhl, the Reichsbank Director. He asserted, on the contrary, that Poland would be a drain on the Reich's exchange resources particularly in view of the fact that in Poland there were relatively heavy foreign investments.

Requests

- 2 -

Requests have been received from the Governments of the Netherlands, Switzerland and Sweden asking that their arrangements with Germany on trade and payments be expanded to cover the remittance of dividends and interest on the investments of their nationals in the occupied area. Foreigners held 42.9 percent of the capital stock of Polish disposition, that is, 721,000,000 marks, according to the German press. This figure included 125,000,000 marks which Germans held.

Puhl has also said that no real addition to the exchange holdings of Germany is to be expected from the repatriation of Germans from Lithuania, Latvia and Estonia. Arrangements are expected to be made between Germany and the Governments of Lithuania, Latvia and Estonia looking toward the progressive conversion of the assets left by emigrant Germans in these countries. But it was admitted that the transfer of the proceeds will be very slow work.

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

KIRK.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 1, 1939, 7 p.m.

NO.: 2632

FOR THE TREASURY DEPARTMENT.

This afternoon we dropped in at the Bank of France for a talk with Rueff. In his new surroundings he seemed to be quite happy, and he admitted that after having had six hectic years in the Movement General des Fonds, he was pleased to be at the Bank of France. He said that he would have been willing to stay in the former position for the duration of the war, and he did not minimize the great interest of that job, but in his present post of Under Governor of the Bank, he finds more "continuity". Rueff added that when such vacancies occur one must take advantage of them.

Rueff believes that the exchange control is working with increasing smoothness; in the Foreign Exchange Office he has increased personnel, and said that the decentralization through establishment of branch offices has made progress - reference, telegram No. 2394 of October 9 from the Embassy. He is placing emphasis upon the importance of making speedy decisions, and wherever possible, of avoiding delays, saying that if unnecessary dislocations of trade are to be avoided, time is the main factor in exchange control. Rueff spoke very highly of the four American banks having branches in Paris, saying that they displayed a cooperative attitude

toward

- 2 -

toward the Foreign Exchange Office. Other officials of the Foreign Exchange Office have similarly expressed appreciation of their cooperation.

The question (stressed by the Embassy in previous telegrams) of reviving France's economic life and particularly her export trade, he said, is a more important problem than that of exchange control today. He made mention of the tour he recently made of the provinces, with the object of doing what he could to remove unnecessary obstacles to trade.

Rueff is trying to get quicker action on the release of excess properties of various kinds which were requisitioned by the military authorities in the exuberance of the early days of the war which now are proving to be unnecessary for the military. The Bank of France is similarly granting all possible financial facilities to lessen the shock of wartime disruption, and is helping in demobilizing officers and men who are not needed. In particular this applies to owners of small shops or factories whose business was closed as soon as they were mobilized, which resulted in important and frequently unnecessary loss of employment and production.

In the foregoing connection, numerous stories have come to us of the large number of reserve officers stationed in the interior of France whose main occupation just now is playing cards, or doing something similar of dubious military value, when in their own industrial or commercial field they could be serving their country to much better advantage.

It

- 3 -

It of course takes time to make such readjustments, and criticism to date hardly seems warranted, taking into consideration the enormous task involved plus the unknown nature of the war.

Rueff emphasized the necessity of increasing exports "at all costs" particularly to the United States, and the necessity of finding return freights for the many ships bringing war purchases from the United States to France.

END SECTIONS ONE TO FOUR INCLUSIVE.

BULLITT.

JI

GRAY

52

Paris

Dated November 1, 1939

Rec'd 5:40 p.m.

Secretary of State

Washington

2632, November 1, 7 p.m. (SECTION FIVE)

A decree published in this morning's Journal Official sets up groups in each department of France to facilitate the supply of foodstuffs and agricultural products to the population in the event of local shortages, transport difficulties, reductions of imports for national production, et cetera. These groups which take the form of limited liability companies with variable capital are authorized to buy and sell foodstuffs and products necessary for the provisioning of the department.

A further decree based on the stipulations of the law of July 11, 1938 on the general organization of the nation in time of war authorizes the Minister of Agriculture to call for periodical declarations from dealers of stocks of foodstuffs on hand. The Ministry of Agriculture may also compel dealers to establish stocks.

(END SECTION FIVE)

BULLITT

NPL

JI

GRAY

Paris

Dated November 1, 1939

Rec'd 5:28 p.m.

Secretary of State

Washington

2632, November 1, 7 p.m. (SECTION SIX)

A communique issued by the Minister of Finance announces that measures will shortly be decreed "simplifying" collection of the 4% or 15% tax on salaries, etc. (depending on whether the tax payer is mobilized) decreed in the "Journal Officiel" of September 9 (our telegram No. 1872, September 9, 1 p.m.). These measures will also provide the communique explains that while the tax is due as of November 1, 1939, collection by deduction at source by the employer will commence only after January 1, 1940. In the interim only the tax of two per cent^{hitherto} prevailing will be collected. The amounts due of the 4 or 15% tax for the months of November and December will be recovered from those subject to the tax after notice given some time during the year 1940. (This, a negative measure, is in line with

Rueff's

-2- 2632, November 1, 7 p.m. (SECTION SIX) from Paris

Rueff's ideas mentioned above of doing nothing to hinder revival of industry and trade at this time)

As Reynaud pointed out yesterday the savings bank situation continues to improve: during the week ending October 28 deposits in Paris savings banks totalled 9,000,000 francs and withdrawals 4,000,000.

The markets were closed today (All Saints Day)
(END SECTION SIX)

BULLITT

NPL

PARAPHRASE OF SECTION SEVEN, TELEGRAM NO. 2632
OF NOVEMBER 1, 1939, FROM PARIS

Yesterday the SS PRESIDENT HAYES cleared from the port of Marseille, carrying approximately five million dollars of gold from Bombay to New York; included in the cargo are also some \$2,000,000 worth of tin, and furs to the value of some \$1,000,000. At Marseille the ship was not subject to any delay, and there was no interference with the mails. However, it is our understanding that at Alexandria some rubber and tin which had been consigned to Italy was removed from the ship.

END OF MESSAGE.


BULLITT.

EA:LWW

No. 5240

Paris, November 1, 1939.

Subject : Article by M. Joseph Caillaux,
published in PARIS SOIR dated
October 30, 1939.



The Honorable
The Secretary of State,
Washington, D. C.

Sir :

I have the honor to refer to the Department's telegram No. 1331 of October 30, 7 p.m., transmitted on behalf of the Treasury Department, and to the Embassy's reply No. 2616 of October 31, 1 p.m., and to forward herewith a copy and translation of M. Caillaux's article as it appeared in the Paris Soir dated October 30 (i.e. the issue published in the afternoon of October 29).

Respectfully yours,

For the Ambassador :

Robert D. Murphy
Counselor of Embassy

In quintuplicate.

Enclosures : 1. Copy of article
from Paris Soir.
2. Translation of above.

of NOV 1 1939

from the Embassy at Paris.

2 A M-10-89

LIBRES OPINIONS

Ainsi parlait le Dr Brinkmann

accusé par M. Hitler "d'effondrement nerveux"

AVANT que M. Hitler, le 10-11-39, se prononçât de la bouche de son porte-parole, dans un discours de la Reichstag, l'Allemagne, par son attitude, n'avait-elle pas été accusée par M. Hitler, le 10-11-39, d'effondrement nerveux ?

PAR Joseph CAILLAUX Ancien président du Conseil, président de la commission des Finances du Sénat

Qu'avait donc dit le 10-11-39, M. Hitler, en parlant de son pays, lorsqu'il a dit : "L'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

de 20 millions de tonnes par an. Certains même prétendent qu'il en est de 30 millions de tonnes. C'est, de proportions énormes, mais ce qui est certain, c'est que l'Allemagne a été vaincue par son peuple, par son peuple qui a été vaincu par son peuple..."

En tous cas, le général de Gaulle a pu dire, le 10-11-39, que l'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

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Sur cet aspect de la situation de l'Allemagne, il est intéressant de noter que, dans un discours prononcé le 10-11-39, M. Hitler a dit : "L'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

D'APRES le discours de M. Hitler, le 10-11-39, on peut dire que l'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

Et si, dans un discours prononcé le 10-11-39, M. Hitler a dit : "L'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

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pour malheureusement à négliger l'aspect technique, surtout dans ce qui concerne le réseau aéronautique. C'est la grande erreur de M. Hitler, car c'est dans ce domaine qu'il a commis la plus grave erreur.

En tous cas, le général de Gaulle a pu dire, le 10-11-39, que l'Allemagne n'est pas un pays vaincu, elle est un pays qui a été vaincu par son peuple, par son peuple qui a été vaincu par son peuple..."

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Enclosure No. 2 to Despatch No. 5240 of November 1, 1939,
from the Embassy at Paris.

Paris Soir - October 30, 1939.

Translation

THUS SPOKE DR. BRINKMANN

by
Joseph Caillaux
former President of the Council,
President of the Finance Committee
of the Senate.

Last February, the vice-president of the Reichsbank, Under Secretary of State Brinkmann, addressing a meeting of Government officials and trustworthy personages, gave vent to revelations on the economic situation of Germany. He paid for it. A few days later he was actually transported to a "sanatorium" following a "nervous breakdown". Please note the euphemism!

What did he say, really? Merely a portion of truth on the agonizing state of his country, merely the urgency of returning by sound practices to a normal economy. "All our reserves, he declared, are entirely exhausted. By the methods we have employed, we have reached a much lower quality of production at a cost of production considerably higher". More precisely, he admitted that they were at the end of their resources of foreign exchange, that raw materials were lacking, that they had come to manufacture cannons with poor quality steel. "We have had

even to pay, he said, for a cannon a price for which we should normally receive ten cannons, and even that cannon is of an inferior quality, which has been proved beyond question, Gentlemen." He concludes as follows: " We must return to economy, slacken the rhythm of all our projects, establish a sound and durable program corresponding to our financial and economic possibilities."

We will dwell no longer on this glimpse of the situation in Germany which brought such smarting disgrace upon the one who offered it. There are three essential things to consider : the lack of food supply for the people, the question of oil, and that of iron ore.

According to Dr. Yvan Lajos, a Hungarian, who recently published a remarkable book from which I am about to borrow largely in the following, if Germany's foodstuffs situation is compared to that of 1914, it is much worse at the present time than it was twenty-five years ago. Newspaper articles published by German experts, statistics published by the Frankfurter Zeitung, go to prove it.

We will not stop however to develop the matter fully. Let it suffice to recall the utterances of Dr. Ley, Chief of the Labor Front, at Nuremberg in 1937. He admitted that the physical and even the moral condition of the German population was affected by under-nourishment. We will not go further into the subject, for it is hardly probable that feedstuffs restrictions will determine the issue of the conflict, and what we want to consider are the causes of the substantial inferiority of our adversaries. From

that . . .

that point of view, the possibilities of petroleum supply are decisive. The Reich has understood this so well that, not having oil deposits of its own, any more than we have, it has endeavored to produce synthetic gasoline, but it may be safe to suggest that not only has it failed to reach its aim but that it has missed the mark by far. In 1937, Germany was able to produce, of the 5,150,000 tons consumed, some 35.9 per cent by synthetic means; the balance was imported from abroad. Hence, it is certain - as estimated by German economists - that wartime petroleum needs would be not less than 15 or 20 million tons a year; some of them estimate them at 30 or even 40 million tons, - hence a colossal disparity between the Reich's supply and its needs. Making the most favorable minimum of 15 million tons, where is it to be found? In Rumania? Production there is insufficient. It amounted to 8,700,000 tons in 1936, and fell to 6,350,000 tons in 1938. Accounting for its national needs, and supposing even, against all likelihood, that the surplus were supplied to Germany, the latter would obtain but 4 or 5 million tons at the most of its indispensable 15 million tons. As for Russia, on which the Reich counts undoubtedly, the Economist reasonably points out the chances are small of Germany's obtaining important quantities of oil from that source. Russian exports have fallen substantially from 6 million tons in 1938 to 1,100,000 tons in 1938. Furthermore, all these exports pass through the Black Sea, and the lack of tank cars would prevent appreciable quantities of petroleum from reaching Germany. This English periodical, whose articles are known to be

absolutely reliable, briefly reviews what has been reported at length by the petroleum information service, whose sources are unquestionably sound. As a matter of fact, the situation may be summed up in a few words : two-thirds of the world production of petroleum come from the United States; the other third is supplied chiefly by Asia and Australia (sic). To draw from the precious wells implies maritime freedom.

It was "on the waves of petroleum that the Allies were borne to the port of victory", said Winston Churchill in speaking of the war of 1914. Was the English statesman aware that the truth he uttered would be repeated a hundredfold twenty years later ? For the petroleum needs of 1919 cannot possibly compare with those of today. Such is the growing importance of motorization and aviation that it is impossible to gauge future requirements. And have not the Germans shown a singular lack of foresight in basing their strategic conceptions on a liquid of which they do not even possess the smallest portion ? Let us imagine a miracle however ! Suppose that "suddenly" a process were discovered which would offset "all at once" the lack of petroleum. Unlikely ! Yes. Still, what would replace it ? I am merely asking a question; and await no answer.

In any case, there is iron ore ! On this point also, Germany's case is special. While sparing our readers the dryness of figures, we must indicate that German production of iron ore which in 1936 was 6,650,000 tons, in 1937 amounted to 8,620,000 tons. The Reich was therefore obliged to import

18,470,000 . . .

15,470,000 tons in 1936 and 20,620,000 tons in 1937. It was difficult in peacetime; it will be impossible in wartime. For example, how can it obtain from Sweden the high-quality iron ore with which it was normally supplied. By sea! As ever, the sea! Yesterday, it was free. Today, it is no longer so. The difficulty for Germany is all the greater since Swedish iron ore exports have hitherto come through the Atlantic port of Narvik which is now vulnerable to British blockade. To ship quantities of iron ore to Germany by the Baltic would necessitate the construction of a special railway. Therefore, Germany must resort to all means of increasing iron and steel production, through the requisitioning of park gates, iron grill doors, etc. This explains what the Turkish governmental papers revealed on March 1, 1939: that six steel ships produced by Krupp and recently delivered to Turkey, had immediately to be withdrawn from circulation, in a pitiful state, and subjected to a complete overhauling. An extraordinary account of the subject is given by the newspaper Tan.

From the foregoing, it may be seen that the western powers would have to show baffling incapacity to lose the war. If they know how to make use of their advantages, victory will be assured in a short time. They may suffer passing misadventure but final victory will be theirs none the less.

Now that we have given these assurances of fact, let us give play to fancy. Imagine Germany supplied with

petroleum, iron ore, and the wherewithal to feed plentifully its population. Are we not confronted with the pitiable fate of humanity? At a time when a man's merit is of small account, when not only economic order is out of gear, what would become of humanity if a tyrannical power, curbing intelligence under its rule, depriving individuals of their liberty, were to dominate the world?

The Reich asks for colonies to justify its forthcoming claim for a navy. We cannot consider such views unless Germany amends. But will it ever amend? Shall we ever see again the Germany of Voltaire's "Candide", the Germany of Rhenish princes currying favor with the Court of France, or the Germany of musicians and of scholars who brought such a precious gift to humankind?

Dr. Schacht, whose name sounds throughout the world, in May 1937, already expressed his fears for intellectual progress; he remarked on the smaller number of students in the exact sciences, the lack of activity in training manual workers. "All this, he said, unfortunately leads us to neglect higher technical instruction, although the level attained served to the greatness of German economy these sixty years past". I may, myself, raise this complementary question: Is not Germany overcome by its appliance to science which has narrowed its intelligence with respect to general ideas? Of course, I might anticipate further in asking whether such a danger does not threaten other countries as well. But, confining my view to our eastern neighbors, I observe that, stifled as it is without any

natural . . .

natural frontiers, the German race no sooner seeks a unity contrary to nature than it is beset by a temptation growing out of its "primariness" : to extend its territory to the measure of its appetite.

" The policies of all nations derive from their geography" are the words of a conqueror who happened to think strongly. The history of the great people, whose defects Tacitus defined some eighteen hundred years ago when he measured their perpetual uneasiness, their continual instability, is the most glaring vindication of the Napoleonic formula.

- - - - -

November 1, 1939.

Gc

STRICTLY CONFIDENTIAL

My dear Mr. President:

In connection with recent conversations in regard to the handling of the British official account for the purchase of war materials in the United States, the following data are of interest.

On October 31 payments were made to the Federal Reserve Bank of New York, for the account of the Bank of England, as follows:

<u>Amount</u>	<u>From</u>	<u>By order of</u>
\$5,000,000	Barclays Bank	Barclays Bank
1,000,000	Bankers Trust Co.	Martins Bank
5,000,000	" " "	Westminster Bank
3,000,000	Central Reserve Bk. & Tr. Co.	" "
2,500,000	" " " "	Royal Bank of Scotland
10,000,000	Chase National Bank	Westminster Bank
16,000,000	First Nat'l Bank, Boston	Midland Bank
28,000,000	Guaranty Trust Co.	National Provincial Bank
7,000,000	" " "	Westminster Bank
2,500,000	Irving Trust Co.	Royal Bank of Scotland
1,000,000	National City Bank	Westminster Bank
<u>\$85,000,000</u>		

It would appear that the above payments represent the assembling of dollar balances surrendered to the British Control in accordance with the British Defense (Finance) Regulations. Incidentally, these deposits increase the cash balances of the Bank of England with the Federal Reserve Bank of New York to \$200,988,000 as of this morning.

On October 30 the British Embassy delivered to me a communication in which the Chancellor of the Exchequer stated that he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York, and agrees that the Secretary of the Treasury shall personally and confidentially have access thereto.

While this special account has not yet been established, the preparation therefor obviously is being made through concentrating British official dollar balances in the Federal Reserve Bank of New York.

Yours sincerely,

The President,

The White House.

EMC/rms

November 2, 1939.

MEMORANDUM FOR MR. IREY:



The following has been received from Naval Intelligence today, and relates to the same information they gave us yesterday. It is, however, in slightly more detail:

"Additional information received to the effect that a Mr. Rhineland, Broker, connected with Morgan & Company, New York City, came to Baltimore in place of the five Netherlanders. He sought insurance rates for the shipment of 3/4 billion in stocks, mostly U. S. Steel, held by individuals and small groups in Holland, who wish to send it to the United States for safe-keeping as they fear invasion. The stocks will be sent in approximately 50,000,000 lots by neutral ships.

"Informant advised that approximately 10% of all U. S. Steel is owned in The Netherlands."



B. M. Thompson.

Excerpt from Political Report for the Month of
August from American Consul at Yunnanfu

1939

Foreign Trade

According to statistics of the Yunnan-Indochina railway, a total of 20,875 metric tons of goods were exported from Yunnan over the railway in the seven months from January to the end of July, 1939. The following table shows the breakdown into the several classes of goods.

Product	Quantity (Metric Tons)
Antimony	250
Food Products*	284
Wax	43
Tin Slabs	4,522
Tin Ore	522
Vegetable Oil**	7,455
Medicinal Products	2,358
Tungsten Ore (Wolfram)	297
Hides	1,235
Duck Feathers	69
Bristles	801
Nutgalls	1,808
Miscellaneous	<u>1,231</u>
Total	20,875

*Believed to consist chiefly of pigs' intestines.

**Principally tung oil.

Of this total, 13,388.86 metric tons consisted of export shipments from provinces other than Yunnan (chiefly Szechwan). The following table shows the quantity of this kind of freight from month to month.

Month	Quantity (Metric Tons)
January	1,001.90
February	1,267.06
March	1,723.64
April	2,338.17
May	2,413.57
June	2,313.26
July	<u>2,331.26</u>
Total	13,388.86

It

-2-

It is believed that the decreases noted in June and July were due to the effect of heavy rains along the highway from Chungking to Yunnanfu. It will be recalled that serious congestion of traffic at the Wukiang ferry was reported by this Consulate during those months.

The statistics given above, though not obtained from the railway itself, were supplied by a reliable source and are believed to be accurate.

During the month of July, 1939, export shipments of the National Foreign Trade Commission from Yunnan totaled 1,393,927 kg., an increase of 259,954 kg. over shipments during June. The items were bristles (87,597 kg.), pigs' intestines (22,462 kg.), raw silk (10,394 kg.), quicksilver (13,760 kg.), nutgalls (231,046 kg.), untanned hides (28,046 kg.) and tung oil (1,000,622 kg., comparing with 909,642 kg. in June).

The figures for shipments of the Foreign Trade Commission during August are not yet available. It is known, however, that 53 tons (106,000 pounds) of tung oil was shipped to Rangoon by this agency on August 12, this being the first export shipment over the Burma road and in fact the first movement of commercial goods over that route.

As noted in a previous section, all exports of Yunnan-produced goods have ceased pending the outcome of negotiations between provincial and National Government representatives in Chungking.

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11/1/41

Coulmore
NEW YORK.--TWO UNITED STATES COAST GUARD CUTTERS SPED OUT TODAY TO A SPOT 450 MILES OFF THE NEW ENGLAND COAST WHERE, ACCORDING TO RADIO MESSAGES, A SUBMARINE HAD INVADED THE UNITED STATES NEUTRALITY ZONE TO ATTACK A SHIP.
11/1--R835A

ADD SHIP, NEW YORK

THE SHIP'S SOS WAS RECEIVED BY THE RCA STATION AT CAPE RACE, NFD., AT 1:30 A.M., ACCORDING TO MACKAY RADIO HERE. THE SOS WAS FOLLOWED BY THE "SSS SUBMARINE" SIGNAL, INDICATING A SUBMARINE ATTACK. THE POSITION GIVEN WAS LATITUDE 40.20 NORTH; LONGITUDE 62.31 WEST.

THE SHIP WAS NOT IDENTIFIED IN MESSAGES RECEIVED BY MACKAY, BUT RADIO STATIONS ALONG THE CANADIAN COAST IMMEDIATELY SENT OUT CALLS FOR THE BRITISH FREIGHTER COULMORE, ASKING FOR SIGNALS SO THAT DIRECTION FINDINGS COULD BE TAKEN ON HER. THUS, IT WAS INDICATED THAT IT WAS THE COULMORE THAT HAD BEEN ATTACKED. THE CANADIAN STATIONS GOT NO ANSWER FROM THE COULMORE AND THEY REPEATED THE CALLS EVERY FEW MINUTES THROUGHOUT THE NIGHT ON THE AUTOMATIC SIGNAL SYSTEM, ON WHICH THEY ALSO BROADCAST THE "SUBMARINE DISTRESS" ALARM.

11/1--R850A

LONDON.--BRITISH NAVAL CIRCLES SAID TODAY THAT A NAZI SEA RAIDER MAY HAVE BEEN RESPONSIBLE FOR THE REPORTED ATTACK ON A BRITISH FREIGHTER--BELIEVED TO BE THE COULMORE--SOME 450 MILES OFF THE NEW ENGLAND COAST.

11/1--R905A

NEW YORK.--MACKAY RADIO REPORTED EARLY TODAY THAT THE UNITED STATES COAST GUARD CUTTERS GEORGE W. CAMPBELL AND GEORGE M. BIBB WERE RUSHING TO A SPOT 450 MILES OFF THE NEW ENGLAND COAST WHERE A SUBMARINE ATTACK HAD BEEN REPORTED.

11/1--R921A

ADD RAIDER, LONDON

PENDING FURTHER DETAILS, OFFICIALS SAID THEY WERE NOT PREPARED TO BELIEVE THAT THERE IS A U-BOAT IN THAT AREA OF THE ATLANTIC OCEAN AT PRESENT.

IF A SHIP WAS ATTACKED THERE, THEY BELIEVED, IT WOULD BE MORE LIKELY THAT A GERMAN SURFACE RAIDER MADE THE ATTACK. THREE GERMAN WARSHIPS HAVE BEEN REPORTED IN THE ATLANTIC AT VARIOUS TIMES. THEY ARE THE DEUTSCHLAND, THE ADMIRAL SCHEER AND THE EMDEN, NONE OF WHICH HAVE BEEN HEARD FROM RECENTLY.

11/1--R926A

THE NAVY ANNOUNCES THAT ITS DESTROYERS AND PLANES ARE COOPERATING WITH THE COAST GUARD IN EFFORTS TO AID THE S.S. COULMORE, BRITISH FREIGHTER WHICH SENT AN SOS SOME 450 MILES OFF THE NEW ENGLAND COAST AND WAS BELIEVED TO BE A GERMAN SUBMARINE VICTIM.

"NAVY DESTROYERS AND PLANES ARE COOPERATING WITH THE COAST GUARD IN ANSWER TO DISTRESS CALL FROM THE S.S. COULMORE IN SAVING LIFE AT SEA," A NAVY STATEMENT SAYS.

11/1-9:37

ADD SHIP, NEW YORK (TIMED 8:50A)

AT 10 A. M., HOWEVER, THE COAST GUARD REPORTED THAT NO FURTHER WORD HAD BEEN RECEIVED FROM EITHER CUTTER.

JQ 11/1--E1007A

ADD NAVAL SEARCH

RELIABLE SOURCES OF INFORMATION PLACED THE LOCATION OF THE COULMORE ABOUT 350 MILES OFF BOSTON, 480 MILES OUT OF NEW YORK AND 500 MILES FROM PHILADELPHIA.

THE NAVY'S DESTROYERS, WHICH HAD BEEN ON NEUTRALITY PATROL, ARE EXPECTED TO REACH THE COULMORE SHORTLY. THEY ARE PROCEEDING AT FULL SPEED AND ARE BELIEVED TO HAVE BEEN NOT FAR FROM THE COULMORE'S LOCATION.

11/1--E1012A

COAST GUARD CUTTER BIBB ARRIVED TODAY AT THE REPORTED POSITION OF THE BRITISH FREIGHTER COULMORE AND REPORTED IT FOUND NO SIGNS OF THE SHIP.

11/1--R1058A

ADD CUTTER BIBB

THE COULMORE REPORTED EARLIER THAT IT HAD BEEN ATTACKED BY A SEA-RAIDER APPROXIMATELY 450 MILES EAST OF BOSTON.

THE BIBB SAID THAT A MODERATE SOUTHERLY GALE WAS BLOWING AT THE POSITION GIVEN BY THE COULMORE, AND WHEN IT FOUND NO TRACE OF THE VESSEL OR ITS CREW, BEGAN SEARCHING TO THE NORTH.

11/1--R1102A

ADD CUTTER BIBB

THE COAST GUARD CUTTER ADVISED HEADQUARTERS THAT IT EXPECTED TO MAKE CONTACT AT 11:45 A.M. WITH A COAST GUARD FLYING BOAT WHICH LEFT NEW YORK AT 7:17 A.M.

THE CUTTERS CHELAN AND ARGO WERE ORDERED TO JOIN IN THE SEARCH. PREVIOUSLY THE CUTTERS HAMILTON, CAMPBELL AND DUANE WERE REPORTED TO BE UNDER WAY FOR THE COULMORE'S POSITION.

11/1--R1109A

Coulmore

TWO COAST GUARD AIRPLANES WERE FORCED TO TURN BACK BECAUSE OF BAD WEATHER AFTER FLYING CLOSE TO THE REPORTED POSITION OF THE BRITISH FREIGHTER COULMORE, 500 MILES OFF THE NEW ENGLAND COAST.

ONE PLANE, PILOTED BY LIEUT. R. L. BURKE OF THE CAPE MAY, N.J., COAST GUARD STATION, REACHED A POINT APPROXIMATELY 35 MILES FROM THE COULMORE'S POSITION BEFORE HEADING BACK. THE OTHER PLANE WAS FROM NEW YORK. A GALE WAS BLOWING IN THE VICINITY OF THE COULMORE'S REPORTED POSITION AND FLYING CONDITIONS WERE HIGHLY UNFAVORABLE.

11/1--R337P

Continued from page 72 *11/16/42*

THE CAMPERDOWN RADIO STATION IN CANADA TODAY NOTIFIED THE COAST GUARD CUTTER BIBB THAT THE BRITISH FREIGHTER COULMORE IS SAFE.

11/2--R938A

ADD COULMORE SAFE

THE MESSAGE TO THE BIBB SAID THAT AT 2:30 A.M. THE CAMPERDOWN STATION WAS ADVISED BY THE COULMORE THAT SHE WAS SAFE.

THE BIBB'S COMMANDER SAID THAT THE CAMPERDOWN STATION'S MESSAGE JUSTIFIED ENDING THE SEARCH.

THE CANADIAN STATION SAID THE COULMORE WAS ABLE TO SEND MESSAGES TO CAMPERDOWN BUT APPARENTLY COULD NOT RECEIVE THE REPLIES.

11/2--R942A

ADD COULMORE SAFE

THE BRIEF MESSAGE TO THE COAST GUARD DID NOT SAY WHETHER THE BRITISH FREIGHTER HAD BEEN ATTACKED BY A BELLIGERENT NAVAL VESSEL. SUCH AN ATTACK WOULD ATTRACT CLOSE OFFICIAL UNITED STATES ATTENTION INASMUCH AS IT MIGHT PROVIDE THE FIRST MAJOR TEST OF THE DECLARATION OF PANAMA IN WHICH THE AMERICAN REPUBLICS DECLARED AS A NEUTRAL ZONE A BROAD SEA EXPANSE AROUND THE WESTERN HEMISPHERE REPUBLICS.

YESTERDAY THE COAST GUARD RECEIVED A CALL FOR AID FROM THE VESSEL AND THEN NOTHING FURTHER WAS HEARD FROM THE SHIP'S RADIO. IT WAS FEARED THAT SHE HAD BEEN THE VICTIM OF A SUBMARINE ATTACK.

11/2--R954A

ADD COULMORE SAFE

THE BIBB'S COMMANDER SAID THAT THE CAMPERDOWN STATION'S MESSAGE JUSTIFIED ENDING THE SEARCH.

THE CANADIAN STATION SAID THE COULMORE WAS ABLE TO SEND MESSAGES TO CAMPERDOWN BUT APPARENTLY COULD NOT RECEIVE THE REPLIES.

11/2--E1001A

HALIFAX, N. S.--CAMPERDOWN WIRELESS STATION, NOW UNDER DIRECTION OF THE ADMIRALTY, REFUSED TODAY TO CONFIRM OR DENY IT HAD INFORMATION ON THE SAFETY OF THE BRITISH FREIGHTER COULMORE.

11/2--E1006A

OTTAWA.--THE CANADIAN NAVAL SERVICE SAID IT HAD BEEN ADVISED OF AN INCOMPLETE MESSAGE THAT THE FREIGHTER COULMORE WAS SAFE, BUT THAT IT COULD NOT "PLACE TOO MUCH CREDENCE" IN THE REPORT.

11/2--R1041A

ADD COULMORE SAFE

THE COAST GUARD SAID IT WOULD CONTINUE THE SEARCH IN THE VICINITY OF THE REPORTED S.O.S. CALL FOR A WHILE LONGER. THE CAMPERDOWN RADIO STATION DID NOT ADVISE THE COAST GUARD OF THE LOCATION OF THE COULMORE WHEN IT REPORTED ITSELF SAFE.

11/2--R1046A

add volume 2

BOSTON.--ALL COAST GUARD AND NAVY VESSELS ON NEUTRALITY PATROL OFF THE NEW ENGLAND COAST WILL CONTINUE THEIR SEARCH FOR THE FREIGHTER COULMORE UNLESS ASSIGNED TO OTHER SPECIAL DUTY AN OFFICER SAID TODAY.

FOUR CUTTERS AND TWO PATROL BOATS, BUT NO PLANES, ARE COOPERATING NOW IN THE HUNT, WHICH CONTINUED ALL NIGHT WITH AID OF SEARCHLIGHTS, ACCORDING TO THE OFFICER. HE SAID THE SEARCHING SHIPS CARRIED A TOTAL OF ABOUT 550 MEN.

11/2--R1158A

THE COAST GUARD ANNOUNCED THAT IT IS CONTINUING SEARCH FOR THE BRITISH FREIGHTER COULMORE UNTIL IT IS DEFINITELY ASCERTAINED THAT THE SHIP IS SAFE AS REPORTED BY A CANADIAN RADIO STATION AT CAMPERDOWN, N. S.

11/2--E1210P

ADD COAST GUARD

COAST GUARD HEADQUARTERS EARLIER HAD ANNOUNCED THAT THE CAMPERDOWN STATION ADVISED THE CUTTER BIBB THAT IT HAD CONTACTED THE COULMORE AT 2:30 A. M. EST.

THE COAST GUARD DECIDED TO CARRY ON THE SEARCH, HOWEVER, BECAUSE THE CANADIAN STATION ADDED THAT IT HAD RECEIVED NO REPLIES FROM LATER DIRECT MESSAGES TO THE COULMORE.

THE BIBB, WHICH WAS IN CHARGE OF THE COAST GUARD HUNT, ADVISED AT MIDMORNING THAT IT WAS RETURNING TO HALIFAX BECAUSE IT HAD A SICK SAILOR ABOARD.

THE BIBB WILL BE REPLACED BY THE CUTTER DUANE.

11/2--E1221P

BOSTON.--THE COMMANDER OF THE CUTTER CHELAN, SEARCHING FOR THE BRITISH FREIGHTER COULMORE, RADIOED COAST GUARD DIVISION HEADQUARTERS HERE ASKING PERMISSION TO CALL OFF THE HUNT. THE MESSAGE WAS RELAYED TO WASHINGTON FOR A DECISION.

11/2--R309P

COAST GUARD HEADQUARTERS ANNOUNCED THAT IT HAS CALLED OFF THE SEARCH FOR THE BRITISH FREIGHTER COULMORE, BELIEVED TO HAVE BEEN ATTACKED BY A WAR VESSEL OFF THE NEW ENGLAND COAST.

11/2--R321P

ADD COAST GUARD SEARCH SUSPENDED

IN CALLING OFF THE SEARCH, AFTER THE COMMANDER OF THE CUTTER CHELAN HAD ASKED PERMISSION TO QUIT, THE COAST GUARD DID NOT SAY WHETHER IT WAS SATISFIED THAT THE VESSEL WAS SAFE.

AT 2:30 P.M., COAST GUARD HEADQUARTERS MESSAGED THE CUTTERS CHELAN, ARGO, CAMPBELL AND DUANE TO RESUME THEIR REGULAR STATIONS, BELIEVED TO BE THE U.S. NEUTRALITY PATROL. THE COAST GUARD CUTTER BIBB EARLIER HAD ABANDONED THE SEARCH AND TURNED BACK TOWARD HALIFAX, N.S., BECAUSE ONE OF HER CREW MEMBERS WAS ILL.

11/2--R330P

ADD COAST GUARD SEARCH SUSPENDED

THE SEARCH WAS ABDNORED BECAUSE ~~THE~~ COAST GUARD HAD REASON TO BELIEVE THE VESSEL WAS SAFE, IT WAS EXPLAINED AUTHORITATIVELY./

THIS BELIEF WAS BOLSTERED BY A MESSAGE FROM THE AMERICAN TRADER TO THE CUTTER CHELAN ADVISING THAT THE COULMORE WAS SAFE. COAST GUARD OFFICIALS SAID THAT THEY WERE WITHOUT INFORMATION AS TO WHETHER THE AMERICAN TRADER SAW THE COULMORE OR COMMUNICATED WITH IT. REPORTS FROM OTHER SOURCES ALSO SUPPORTED THE AMERICAN TRADER'S ADVICE.

11/2--R342P

*replied to
11-8-39*

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THE SECRETARY OF STATE
WASHINGTON

November 2, 1939.

My dear Mr. Morgenthau:

With reference to your conversation yesterday with Mr. Welles concerning the Treasury's representation on the subcommittee set up on October 20, 1939 by the Executive Committee on Commercial Policy to consider problems arising in connection with this Government's participation in the work of the Inter-American Financial and Economic Advisory Committee which is to meet at Washington on November 15, 1939, I understand that it would be difficult for Mr. Hanes to give the necessary time to the committee in question owing to the many other matters requiring his attention and that it has been suggested that Mr. Harry D. White, who is the Treasury's representative on the Executive Committee on Commercial Policy, represent the Treasury also on this subcommittee of the Executive Committee on Commercial Policy.

I should be very glad to have you designate Mr. White as the Treasury's representative on the committee and, upon being advised of his designation, I shall see that he is notified of its meetings.

Sincerely yours,



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

THE SECRETARY OF STATE
WASHINGTON



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

November 2, 1939.

FOR THE SECRETARY:

I saw Bob Kintner at 11 o'clock this morning and gave him the attached notes which I had made on the April meetings. I have two more meetings to read and digest. I also gave him a copy of the printed testimony before the Senate Military Affairs Committee on the French airplane deal and copies of the telegrams sent to Customs and Coast Guard offices under the Neutrality Act together with the dates on which these telegrams were first drafted.

Bob did not seem upset at the way the information was being given to him, in fact, he said he thought it was a splendid job of condensation. However, he again renewed his request for information on the list of subjects which I gave you previously and added to the list the Bremen incident. He said that, if I were to attempt to digest all this material for them, I would have a very long job, and he asked that I suggest to you the use of the State Department system: The State Department is giving them the original records, memos, etc. and allowing them to make their own digests; these digests are then submitted to the State Department and the Department deletes anything it feels should not be used.

I told him that you had not seen the attached notes and had not approved them and that, after you had seen them, you might wish to change the way in which I was handling them or even to withdraw some of the information I had given them.

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Bob said that one reason they wanted to see the transcripts was to get a feeling of your attitude because they were being given the impression by your "enemies" that you had been very pro-Allies. I replied that certainly the records I had seen did not substantiate this view and I pointed out to him the incident in which you were prepared to force Britain and France, even against their wishes, if necessary, to give us some assurance that they would not allow their stock selling to break our market.

Bob is returning Monday, or perhaps before, to pick up the rest of my notes and to inquire again whether they will be allowed to get information on the other incidents on his list.

- o -

ESD

April 11, 1939

3:00 P.M.

Those attending were: The Secretary, Lochhead, White, Young (for Hansa), Foley, Douglas, Frank, Puresell, Feis, Wallace, Robbins (Agriculture), Eccles, Goldenweiser.

The Secretary made the following opening statement: "Gentlemen, the President asked us to get together for him in the strictest of confidence -- also to give Mr. Justice Douglas a good send-off -- and he wondered what, if anything, we were doing in case there should be a world war to look after the various markets; and I told him that frankly talking for myself I wasn't ready and I didn't know whether anybody else was. So he asked us to meet and discuss it and to get ready. And so I will start anywhere you want."

Mr. Douglas said that "We are prepared with all the legal documents necessary for the closing of the exchanges if that proves necessary. I mean all those documents are drawn and they are all in the ice-box and they could all be executed within a very few minutes, so we are prepared against that contingency."

Mr. Wallace said "I would very much question whether it would be necessary for us to close the commodity exchanges," but promised to prepare for any such contingency if it should arise.

Mr. Eccles said that at the time of the Munich Conference the Reserve Board had prepared a statement which could be issued in the event of an emergency. He asked that Dr. Goldenweiser explain the statement. Dr. Goldenweiser said the statement would reassure the public "of the position of the banks, of the fact that they stand ready to meet any withdrawals." Mr. Eccles promised to have the Board take official action on the statement and then to submit it to other members of the conference.

The Secretary asked Mr. Lochhead to read a cable from Butterworth, transmitting the following information from the British Treasury: (1) Upon the outbreak of a war, the British will register all foreign securities, balances, and gold belonging to British residents and will consult with proper American authorities in liquidation of securities here -- in an effort to manage the liquidation of any American securities in a manner which will be least disturbing to American markets. (2) The British Government does not contemplate a general moratorium, but expects to close all banks and financial institutions for one day. (3) The Bank of England would announce, probably daily, foreign exchange rates for sterling, and banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons. Mr. Butterworth reported his own impression that there were two schools of thought as to the rate for the pound in the event of a war, but that he

believed that those who favor an immediate and sharp depreciation will prevail. (4) Stock exchanges will be closed upon the outbreak of a war, but will be reopened as soon as practicable.

Secretary Morgenthau suggested that the Tripartite mechanism might be used to keep each of the countries in that arrangement informed on what the others plan to do about closing exchanges, so that no one market would find itself the only one open and, therefore, subject to world-wide selling pressure. Mr. Feis raised the point that any rumor of a simultaneous closing of all stock markets in major countries might precipitate selling at once. Secretary Morgenthau replied "I want you to know how I feel. I would do everything possible to keep the market open," and Mr. Feis agreed.

In response to a question from Mr. Douglas, Mr. White reported that total foreign holdings of American securities amounted to about \$3,200,000,000, of which the British owned about \$900,000,000, and that these holdings were a very small percentage of all listed securities. He added, however, that they might all be thrown on the market in a short space of time. Mr. Douglas suggested that if France, Holland, and Switzerland could give some sort of assurance -- as the British had done -- that their liquidation of American securities would be orderly. The United States would have "the only protection we need." Secretary Morgenthau agreed that "it would be wonderful."

The Secretary suggested that each agency present designate some representative to sit on a committee so that there would be no necessity of fumbling around for people if the need for action arose. The meeting adjourned with an agreement to meet at 3:30 the following afternoon.

April 12, 1939

3:30 P.M.

Those present were: The Secretary, Hanes, Foley, Bernstein, White, Young, Wallace, Feis, Frank, Purcell, Eccles, and Goldenweiser.

Mr. Feis opened the meeting by suggesting preparation of "a statement which at the same time would declare a desire to keep the exchanges open, give a presentation of the advantages of keeping the exchanges open, but also allay apprehension by indicating that, if that turned out to be under actual short trial unsatisfactory, they could be closed." Mr. Purcell next reviewed the SEC position as follows: There are three things which might be anticipated in the event of a declaration of war in Europe. (1) Foreign dumping of American securities in the absence of some control of this selling by the foreign governments, (2) domestic selling of securities because of fear of foreign dumping, and (3) withdrawal of potential buyers from the market. "Therefore, some measures would seem necessary in order to withhold at the source of foreign dumping." He said there were two possibilities: (1) Keeping the markets open under close supervision and (2) temporary closing of the exchanges, plus "some regulatory force" to be exerted over registered dealers and brokers in the over-the-counter market. He expressed the opinion that perhaps the best course would be not to issue any statement in advance and that no government paying of the market be considered. If the market had to close, the pattern followed in 1914 was "the best that can be visualized a priori."

The Secretary then suggested that a message be telephoned through Butterworth and Cochran to the Treasuries in the Tripartite accord -- England, France, Belgium, Switzerland, and Holland -- suggesting prompt consultation directed toward preventing panicky marketing and utilization of assets in the markets of other countries. The Secretary suggested to the meeting that should the various governments whose nationals own American securities in large amounts not desire to cooperate to the end suggested in his message, the Treasury could immobilize their dollar balances in this country. Power to do so, he explained, was contained in the Treasury's power over payments by banks and over foreign exchange. Such action would remove their incentive for hasty selling. He added, however, that he would be most reluctant to invoke any degree of exchange control.

Mr. Wallace reported that the Department of Agriculture had no "absolute powers" to close commodity exchanges; it had only the power of suasion. The Department's lawyers, he said, were still investigating the question of whether the President had authority to close commodity exchanges.

Mr. Eccles reported on the statement which he had mentioned at the meeting yesterday. He explained that it was a tentative statement subject to approval by each of the Reserve banks and he summarized it by saying that the Reserve banks would stand ready to make advances on Government securities at par. The statement would go on to tell something about the general credit situation, he said.

The Secretary said that he thought the Attorney General should be asked to give his opinion, perhaps informally, on the SEC's order which would be used if the stock exchange had to be closed and on any orders which the Treasury might use if it decided on any form of foreign exchange regulation.

The Secretary said that he was asking President Harrison and Vice President Knoke of the New York Reserve Bank to come to the Treasury the next morning and he asked the SEC to invite Edward Bartlett of the New York Stock Exchange to represent President Martin who was out of the city.

April 12, 1939

5:40 P.M.

Those present were: The Secretary, Hanes, White, Duffield, Bernstein, Lochhead, and, for brief periods, Feis, Foley, and Frank.

(The Secretary had been to the White House at 5 o'clock to report to the President the progress being made by the group.)

The Secretary called Secretary Hull on the telephone, read him the proposed message to the Tripartite governments which had been read at the previous meeting today, and told him the Treasury had in mind telephoning it through Cochran and Butterworth. Secretary Hull said that inasmuch as the message was merely an inquiry and not a commitment he would not object to its transmission, but also would not undertake to express an opinion on its merits. Mr. Feis later joined the meeting and confirmed this conversation. The Secretary put in trans-Atlantic calls for Butterworth and Cochran and while the calls were coming through discussed with Mr. Feis the best way of making a similar approach to Canada.

The Secretary read the text of the message to Mr. Cochran and instructed him to telephone it to the treasuries of France, Belgium, Switzerland, and Holland, and to inform Ambassador Bullitt. Because of delay in reaching London, the Secretary left Mr. Lochhead with the responsibility of reading the message to Mr. Butterworth and instructing him to communicate it to the British Treasury.

April 15, 1939

9:30 A.M.

Those present were: The Secretary, Hanes, Lockheed, Gaston, Eccles, Harrison, Knoke, Goldenweiser, Frank, Purcell, Carl B. Robbins, and J. W. T. Duvel (both of Agriculture) and for part of the time, Mr. Feis and Mr. Bartlett.

The Secretary explained the purpose of the meeting and said "I'd like to hang a sign outside my door: 'Business as usual.' That's the way I feel. I'd like to be able -- I want to do everything possible to maintain the position of the United States as a world market and keep going on with business as usual."

Mr. Eccles, Mr. Harrison, Mr. Frank, and Mr. Robbins (who, with Mr. Duvel, represented Wallace because of an appointment the latter had at the Capitol) all expressed agreement with this objective. Mr. Harrison, in discussing the problems which he thought might arise, mentioned the Government bond market. Mr. Eccles explained that should an emergency arise, the Executive Committee of the Open Market Committee would "have authority to increase the portfolio on the basis of a telephone approval," by the other members of the full Committee. Secretary Morgenthau asked whether such an authorization could not be given in advance to the Executive Committee and, if possible, be given today. Mr. Eccles replied that he would call the Open Market Committee.

Mr. Eccles stated that "I think we ought to get authority to buy at least \$500,000,000. It does not seem to me to be a question of how much you're going to buy, but you've got to get authority to buy whatever the situation may require."

Mr. Harrison raised the question of whether any attempt should be made to peg the Government bond market and Secretary Morgenthau suggested that this matter be discussed by Mr. Harrison with the Federal Reserve Board that afternoon. Mr. Eccles remarked "I think that to the extent of avoiding a complete panic in the market where there would be no buyers and thus the market could drop an unjustifiable amount between sales -- that we should do something on that score, but only that."

Mr. Feis reported that Secretary Hull advised that contact be made with Canada through Mr. Riddell of the Canadian Legation and that Mr. Riddell be asked to arrange for some Canadian representative to come by train tonight. At this point, Mr. Frank was asked to bring Mr. Bartlett into the meeting. After explaining the purpose of the meeting, the Secretary said "If you would be kind enough -- and I am afraid it will have to be a one-way conversation -- would you tell these gentlemen here what you have in mind and what you think would be helpful? We'd like to listen."

- 2 -

Mr. Bartlett then said "Well, I assume that there is no dispute about the desirability of keeping the Exchange open; and of course that can not always be done, but we have the feeling that in this case it can be done. In the first place, there has been no great amount of foreign liquidation that we have seen. The market has been low and there is no great speculative interest in the market." He continued by suggesting that if foreign liquidation became too heavy "an attempt should be made to handle it, if it arises, with 10 percent minimum prices." For example, a stock or bond selling in the 40's would be permitted to decline a maximum of \$4.00 in any one day. At least this device should be given a trial to see if it would work. His second suggestion was that Federal Reserve margin requirements might be reduced to something like the Stock Exchange minimum requirement of 30 percent. His third suggestion was that the SEC amend its "daylight trading rule." He concluded by saying "The difficulty with closing a market is, if you close a market there is great difficulty to open it, particularly if values decline materially. Then you've got to wait until the raft floats again. You can't open it without serious breaks confronting you. Sooner or later you've got to face the music."

In response to a question from Secretary Morgenthau about whether the Exchange was worried about possible foreign selling, Mr. Bartlett replied "Well, all we can say is we have seen no evidence of anything to alarm us."

Mr. Eccles inquired whether the Exchange had power to enforce a minimum price system, such as Mr. Bartlett had outlined, and Mr. Bartlett replied in the affirmative. He explained, however, that he had not discussed his ideas with the Board of Governors of the Exchange.

April 13, 1938

4:00 P.M.

Those present were: The Secretary, Hanes, White, Lockhead, Bernstein, Foley, Eccles, Harrison, and Knoke.

At the opening of the meeting, the Secretary announced that the Attorney General had not yet reported is views on the draft executive order which would institute exchange control if it became necessary. He remarked: "Well, anyway, what I'm trying to do is -- it shows how important it is to do these things before there is a crisis. You get ready and then pray to the good Lord there won't be any crisis. But if we were fussing around and Frank Murphy saying, 'You can't do this thing,' and you fellows putting the pressure on to do it, everybody would be excited; and this way we do the thing and then if there is no crisis, why, we are very fortunate. But I am tickled to death we've got this thing under way now." Harrison: "I hope you won't have to issue that order." Foley: "So do we." Secretary Morgenthau: "It's all true, but if you want a weapon you want to keep it oiled and loaded." Harrison: "That's right." Secretary Morgenthau: "But with the sincere hope that you don't have to use it, that's all. No, what I am counting on is this, and this is what I want to say to this small group. What I call all of these things, they are trial runs, you see."

The Secretary asked Mr. Harrison to outline what steps he thought would be necessary as a matter of preparatory safeguards in New York. Mr. Harrison replied: "Before the Munich crisis we made a complete survey in the New York banks of the 1914 versus the 1938 situation. The one thing we felt we needed definitely in New York, in the light of past experience, was to have a bankers' committee to which I might go in any hurry upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do. The banking community agreed definitely that I should have such a committee -- call it advisory committee or a market committee or a contact committee. There was some difference of opinion as to how it should be organized, but nevertheless the principle was agreed to. We dropped it merely because of the Munich appeasement, as it was called, I understand. * * * I'll say one thing that they said about government bonds. They all agree, those with whom I talked, that in event of an emergency the New York banks would not, because of their own interests they probably couldn't at any reasonable price, unload their Government bonds; that it would not be a practicable or sensible thing to do. That doesn't mean that some who are under pressure for one reason or another might not have to try, or get a loan from us. But in principle, they agreed that as a banking community they shouldn't demoralize the market by trying to run to cover and unload their holdings of securities on us."

Some discussion then followed on the question of whether the Treasury, through the New York Reserve Bank, could upon the outbreak of a war in Europe request the New York banks to freeze voluntarily the foreign accounts which they hold, thus using a voluntary and temporary arrangement which would enable the Government to avoid any outright blocking of foreign exchange transactions. Mr. Harrison pointed out that if private banks refused to honor drafts which foreign customers drew on the customers' balances, the banks might be liable for any damages which the customers sustain and, therefore, the banks probably could not move on their own authority.

The discussion then returned to the committee which Mr. Harrison was suggesting. And he said "I would expect to have a committee representing the commercial banks, the investment houses, perhaps the government bond dealers, the savings banks, and perhaps even the insurance companies, although that would be doubtful. And I would expect to have them organize sub-committees such as one on foreign exchange, for instance, so that if I have a meeting of the group I can turn over any foreign exchange ruling or question or suggestion or cooperation that you want to procure to the full committee, leaving it to the representative on that committee that has the foreign exchange committee to do the job."

Secretary Morgenthau suggested that the committee be formed immediately. Mr. Harrison and Mr. Hanes both said that formation of such a committee at this time might cause the financial community to suspect that the Government had some information which was not generally available and which was very ominous, whereas, as a matter of fact, no such information was at hand. Mr. Eccles and Mr. Hanes suggested that, for the present, it might be sufficient if Mr. Harrison merely kept in mind the plan and the personnel so that he could actually form the committee on a moment's notice and Secretary Morgenthau agreed.

Mr. Eccles reported that the Board sitting with Mr. Harrison as the Open Market Committee had "adopted a resolution authorizing a purchase of bonds up to \$500,000,000," by the executive committee. This resolution, he added, was subject to telephonic approval by the other members of the Open Market Committee. Secretary Morgenthau reported that the Treasury had over 100,000,000 of special non-market 2 percent notes in the various trust funds, and that the funds could be shifted from these non-market issues to market issues. The Secretary reported that he had heard from Cochran on the French attitude toward the communication of yesterday. The indications were that Paris would not be interested because the desire there was to do nothing which would keep France from being a refuge for

European capital or which would discourage people from sending their money there. Mr. Knoke explained that anything indicative of exchange control in France might interrupt the existing flow of funds back to France and that France was in a peculiar position because it was the only European country which recently had been gaining as the result of international capital movements. In addition, a very informal reply had been received through Butterworth from London in effect repeating a favorable British attitude conveyed in the message which had been read at the meeting of April 11.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1939, 1 p.m.

NO.: 2634.

The following is personal for Secretary Morgenthau:
Reference is made to your telegram of October 21,
No. 1289, and to telegram No. 2588 of October 27 from the
Embassy.

Yesterday afternoon we were told by Rueff that
the Bank of France had now approved the suggested procedure,
and the Finance Ministry now has to make the decision.
This morning we asked Couve de Murville how the matter stood.
He said that the delay was due to ^{the fact that} Governor Fournier
had at first objected, and that the Bank of France was a
"highly conservative" institution and the mechanism which
was suggested for handling the French war purchases was
"entirely new" for the Bank. However, Couve de Murville
added that now Fournier has come around, the differences
between the Finance Ministry and the Bank having been
straightened out. He said that very shortly instructions
would be despatched to Leroy Beaulieu.

BULLITT.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

November 2, 1939.

My dear Mr. Secretary:

I enclose two copies of paraphrase of telegram
No. 2634 of November 2 just received from Ambassador
Bullitt, transmitting a personal message for you.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs


Enclosure:

2 copies, No.
2634 of November 2.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED 

FROM: American Legation, Paris

NO.: 2635

DATE: November 2, 1939, 3 p.m.

This morning we called on Couve de Murville and for Reynaud's information we gave him copies of the letters which we received yesterday by mail from London to which you referred in your telegram no. 1292 to London dated October 25.

We inquired of Couve de Murville how French revenues were holding up. He replied that unfortunately a drop of 50% under budgetary estimates was shown in returns for September. There will be material improvement, it is hoped and expected, in the revenues for October, although it is still too early to know. When we asked whether they contemplate any new taxes in connection with the budget for the coming year, he replied that they were not.

He stated that taxes in France already were "very high" and that some of the direct taxes already amount to 50%. (He probably referred to war profits, on which the tax amounts to 50% when the profits amount to between

four

- 2 -

four and six percent. The tax is 100 percent for profits over 10 percent. Reference: telegram of July 31 from the Embassy, No. 1421, and despatch of August 16, No. 4879.)

We inquired of Couve de Murville whether he had any reasonably close estimates of probable French war purchases in the United States during the first year of the war; he replied that he could not tell as yet. They have already arranged for purchases of copper in the amount of some \$40,000,000 - we understand that the "credits" involved in this transaction only cover the period prior to actual delivery at the port in the United States from which the copper is to be shipped. In the coming year, he said that airplane purchases will amount to \$100,000,000, subject of course to revision of the Neutrality Act. He said that machine tools of many varieties would make up the most important item in French purchases from the United States, aside from the cotton, petroleum and other important raw material purchases.

With regard to the credits to Turkey which are being discussed now, he said that they had not yet definitely settled the final amount. However, war equipment is badly needed by the Turks, he said, and very large credits, several tens of millions of pounds, would be granted by France and
Great

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Great Britain for such purposes.

Couve de Murville said that French capital continues to be repatriated. For the most part, this capital is coming from London, but they are also receiving returns of dollar holdings and a little from elsewhere. With a smile we said that from the point of view of the war, whether "repatriated" now or not, much of this capital would presumably be available to the Government. Couve de Murville replied in the affirmative, but said to have it come in voluntarily was more satisfactory. On Saturday when Butterworth is here, Rueff and Couve de Murville are lunching at our house.

END MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

NO.: 2255

DATE: November 2, 1939, 10 p.m.

Reference is made to your no. 1285 of October 24,
7 p.m.

Butterworth will leave tomorrow morning by plane
and will arrive in Paris at 11:00 a.m. In accordance
with your no. 1326 of October 30, 3 p.m., he will spend
two days in Paris. He will leave Lisbon on the Pan-
American Clipper the morning of November 8 and will
arrive in New York on the following day at noon. The
revised British lists of American security holdings
are being sent with him.

Please pass this information on to Treasury.

KENNEDY

EA:EB

JI

GRAY

Paris

Dated November 2, 1939

Rec'd 6:25 p.m.

Secretary of State
Washington

2644, November 2, 6 p.m.

FOR THE TREASURY

In line with the Government's keen anxiety to bring about a much needed restoration of economic activity (see for example our telegram No. 2632, November 1, 7 p.m.) today's Journal Official publishes a decree creating a "permanent economic committee" to replace during the period of hostilities the unwieldy and ineffectual National Economic Council created by the law of March 19, 1936. A memorandum accompanying the decree frankly sets forth that existing urgent economic and social problems call for a simple compact organization composed of specially qualified representatives of the nation's economic life. The relative utility of the National Economic Council and its topheavy nature it is stated were ill-adapted to present circumstances.

(END OF SECTION ONE)

BULLITT

NPL

JI

GRAY

Paris

Dated November 2, 1939

Rec'd 6:35 p.m.

Secretary of State

Washington

2644, November 2, 6 p.m. (SECTION TWO)

(You will recall from paragraph No. 2 of telegram No. 2571, October 24, 6 p.m. that Professor Rist told us that the committee in reality did nothing since the war started.) This new committee is composed of 20 members (which seems to us still somewhat unwieldy) who will "undertake inquiries, study solutions and provide advice and suggestions on all urgent economic questions laid before it by the government". The membership which is representative of all important industrial, commercial, agricultural, banking, transport, and labor groups numbers among its members: Rist himself, Ardant of the Societe Generale, Professor Siegfried Peyerimhoff (President of the Coal Mine Owners Association), Petiet of the Patronat Francais and Jouhaux of the CGT.

(END SECTION TWO)

BULLITT

NPL

PAP

GRAY

PARIS

Dated November 2, 1939

Rec'd 10 p.m.

Secretary of State

Washington

2644, November 2, 6 p.m. (SECTION THREE).

With reference to yesterday's decree (please see paragraph 4 our telegram No. 2632, November 1, 7 p.m.) setting up departmental groups to insure adequate supplies of foodstuffs and agricultural products, the Ministry of Agriculture indicated this afternoon that these organizations will be put into operation only in case of need or of indications of speculation in foodstuffs and other necessities.

The Bourse was strong and active today, rentes gaining around a franc on the average. The Bank of France statement published today for the week ending October 26 again shows no further drawing by the state on its advance account at the Bank. Commercial advances were reduced by a further 449,000,000 francs and open market operations were down 5,000,000. Thirty day advances were up 18,000,000 while advances against securities decreased by 27,000,000. Note circulation showed an increase of 140,000,000 to a total of 144,379,000,000.

(END SECTION THREE).

BULLITT

NPL

PAP

GRAY

PARIS

Dated November 2, 1939

Rec'd 6:40 p.m.

Secretary of State

Washington

2644, November 2, 6 p.m. (SECTION FOUR).

Current and deposit accounts decreased by 1,569,000,000 and the Treasury account was down 142,000,000 leaving a balance of 107,000,000. Gold cover increased from 59.33% to 59.80%.

The statement of the National Bank of Switzerland dated October 31 showed gold holdings unchanged at 2,390.6 millions and foreign currency holdings down 291.4 millions. Note circulation rose 43.6 millions to 2,036.2 millions. Sight demand liabilities totaled 834.7 millions. The ratio of gold cover was 83.40% as against 83.03% the previous week.

The general meeting of Mendelssohn creditors at Amsterdam has been postponed from November 3 to November 30. The Netherlands Bank statement for the week ending October 30 showed gold reserves at 1,108,000,000 florins as against 1,112,000,000 the previous week. Total liabilities were 1,142,000,000 as against 1,424,000,000. Gold coverage stood at 76.83% as against 78.93%.

(END OF MESSAGE)

NPL

BULLITT

HSM

PLAIN

101

London

Dated November 2, 1939

Rec'd 1:40 p.m.

Secretary of State,
Washington.

2253, November 2, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The Bank of England now fixes an official exchange rate for Netherlands East Indies, the rate for yesterday being 7.44-7.54, and for today 7.46-7.56.

2. The return of notes from circulation has halted, this week's Bank of England return showing an increase of £828 thousand. There was little further of interest in the return, public deposits and bankers' deposits both declining by £2 million and other accounts increasing by £3.7 million. Government securities in the banking department declined slightly by £705 thousand, while other securities increased by £334 thousand.

3. In reply to a question in the House of Commons today Simon gave as the reason for the reduction in bank rate to 2 per cent "The recovery of markets from the dislocation caused by the outbreak of war and the obviously better adjustment of our financial system to the new conditions."

KENNEDY

MOL

not read

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 2, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

Transactions in the foreign exchange market were again small today. The sterling rate moved in a narrow range opening at 4.00-1/8 and closing at 4.00.

Sales of sterling by reporting banks in New York totaled £211,000, from the following sources:

Commercial concerns.....	£211,000
Foreign banks.....	£ -0-
Total.....	£211,000

Purchases of sterling amounted to £353,000, as indicated below:

By commercial concerns.....	£198,000
By foreign banks (Europe and South America).....	£155,000
Total.....	£353,000

The banks also reported that the British Control purchased sterling amounting to £149,000 at the official rate of 4.02. Of this amount £130,000 represented cotton bills.

The rates for the other important currencies closed as follows:

French francs	.0227
Guilders	.5311
Swiss francs	.2244
Belgas	.1669
Canada	10% discount

The Chinese yuan was quoted at .08-3/4.

The discount for the Cuban peso widened to 11-3/4% as compared with yesterday's rate of 10-3/4%. It was reported that this weakness was due to fear that the anticipated rise in the price of sugar, due to war conditions, may not materialize and thereby have an adverse effect in Cuba.

We purchased from the National Bank of Switzerland \$10,000,000 in gold from their earmarked account.

CONFIDENTIAL

In the report of October 31, it was mentioned that the National Bank of Rumania cabled to the Federal Reserve Bank, stating that it intended to buy approximately \$12,375,000 in gold, and that the Federal had informed the Rumanian Bank of the procedure necessary in order to make the purchase. The Federal Reserve Bank today received another cable in which the Rumanian Bank states that the Federal will receive for its account, successively, funds for about \$11,000,000, and it requests that this amount of gold be purchased on behalf of the Rumanian Bank and earmarked in its name at the Federal. The Rumanian Bank also confirmed that the funds employed for the purchase of the gold are from its own resources, and that the gold so acquired will be constituted by it as a reserve of the Bank. The Federal Reserve Bank made application to the Treasury today for the purchase of \$1,000,000 in gold for Rumania, permission for which was granted. As funds are received by the Federal Reserve Bank for the remaining \$10,000,000, which are to be used for the purchase of gold, application will be made to the Treasury each time.

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

\$ 695,000	from India, consigned to the Chartered Bank of India, Australia and China for sale to the U. S. Assay Office at New York.
1,298,000	from Mexico, consigned to the Federal Reserve Bank of New York by the Bank of Mexico to be earmarked for its account at the Federal Reserve Bank of New York.
2,310,000	from Norway, consigned to the Chase National Bank, New York, by the Bank of Norway for account of the State Bank of U.S.S.R.
1,571,000	from Sweden, consigned to the Federal Reserve Bank of New York by the Bank of Sweden for sale to the U. S. Assay Office at New York.
1,575,000	from Sweden, consigned to the Federal Reserve Bank of New York by the Bank of Sweden to be earmarked for its account at the Federal Reserve Bank of New York.
1,967,000	from Sweden, consigned to the Federal Reserve Bank of New York by the Bank of Sweden to be earmarked for its account at the Federal Reserve Bank of New York.
<u>\$9,416,000</u>	Total

In New York we made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act.



CONFIDENTIAL

11-2-39 (Date of receipt)

104

Excerpt from Political Report for the Month of August from American Consul at Yunnanfu
1439

Transportation and Communications

Highways

Although a small bridge on the Burma road west of Hsiakwan was washed out during the month, there was no interruption in the transportation of goods from Lashio to Yunnanfu. Cargo is carried over the break and reloaded on other trucks to complete the journey. On the southern end of the roads where the rains are heaviest, truck traffic still continues slowly, and passenger automobiles are unable to proceed.

No date has yet been set for the opening of the Yunnanfu-Luchow road, although hopeful news-items in the press from time to time promise that it will be opened to traffic in the early autumn.

Railways

It is reported here that the Yunnan-Indochina railway intends to increase its freight rates from Haiphong to Yunnanfu. Steps have been taken by the French authorities in Haiphong to clear the docks; it is reported that customs warehouse space there is to be increased, and an order has been issued which requires owners of cargo on the docks to clear it before they can withdraw goods from customs warehouses. In Yunnanfu provision is being made for an extension of the railway yards; and in addition, the Yunnan-Indochina railway is to have permission to shunt cars on to the sidings recently built near the city by the Yunnan-Burma and Yunnan-Szechwan railways.

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AMERICAN CONSUL
YUNNANFU



105

TREASURY DEPARTMENT

WASHINGTON

November 2, 1939

TO THE SECRETARY:

If you desire to say something at your 10:30 press conference regarding the RFC subscriptions, I suggest the following:

"While the final figures on the subscriptions to RFC notes will not be reported until late this evening, preliminary figures indicate that we have received subscriptions for more than fourteen times the amount asked for. The basis of the allotment will be made public tomorrow morning."

swb

Edo

November 2, 1939

My dear Mr. President:

I am inclosing herewith a copy of a cable from Berlin giving a report of a conversation between the First Secretary of the American Embassy and Dr. Schaecht.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By hand

November 2, 1939

My dear Mr. President:

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The President,

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November 2, 1939

POSSIBLE CRIMINAL LIABILITY OF JOSEPH M. SCHENCK, DARRYL F. ZANUCK,
WILLIAM GOETZ, WILLIAM B. DOVER AND HARRY KADIS

Throughout the day of November 2, 1939, Messrs. Greenbaum, Knollenberg, and Messrs. Foley, Wenchel, Irey, Oftedal and Kades, conferred concerning the possible criminal liability of any, or all, of Messrs. Schenck, Goetz, Zanuck, Dover and Kadis, with respect to the following questions:

1. Bribery of Revenue Agent Kadis in November, 1936.
2. Failure of Schenck, Goetz and Zanuck to report taxable profit on exchange of Twentieth Century Pictures Corporation (hereinafter called "Century") stock for Twentieth Century-Fox Film Corporation (hereinafter called "Fox") stock in 1935.
3. Failure of Zanuck to report as taxable income the value of certain Twentieth Century-Fox Film Corporation stock received by him in 1935.
4. Making a false statement in affidavits filed in 1938 by Schenck, Goetz and Zanuck in a matter within the jurisdiction of the Treasury Department, namely the investigation of their income tax liability for 1935.

These points will be discussed in the order named.

1. Bribery of Revenue Agent Kadis in November 1936.

Prior to August 22, 1935, Messrs. Schenck, Goetz and Zanuck owned all of the stock of Century in the following amounts:

	<u>Preferred</u>	<u>Common</u>
Schenck	35,000	40
Goetz	35,000	40
Zanuck	None	20*

In July, 1935 arrangements were made for a statutory merger of Century with Fox, and on or about August 22, 1935 Schenck, Goetz and Zanuck received for their Century stock the following shares of Fox stock:

	<u>Preferred</u>	<u>Common</u>
Schenck	55,000	214,000
Goetz	55,000	214,000
Zanuck	22,000	183,000

It is conceded that the value of the Fox preferred and common stock received by each of the Century stockholders was far in excess of the cost basis of his Century stock, and that, therefore, if the exchange was not a tax exempt exchange, a large taxable profit was realized. None of the Century stockholders reported any taxable profit on the exchange in their income tax returns for 1935 on the theory that the exchange was a tax exempt exchange under section 112(b)(3)

* - These were the record holdings. As brought out later, Schenck, Goetz and Zanuck filed affidavits with the Bureau of Internal Revenue in 1938 stating that the beneficial ownership of the Century common stock in August, 1935 was 35-35-30 shares respectively.

of the Revenue Act of 1934 which was in force in 1935.

In 1936, Kadis, a Revenue Agent attached to the Upper District of New York, audited the 1935 income tax returns of Century and Fox, which were, I think, New York corporations, and, in some way not yet ascertained*, was assigned the duty of auditing the return of Schanck who filed his 1935 return in the Upper District of New York, and also the returns of Goetz and Zanuck who filed their returns in the Los Angeles District.

On December 1, 1936 Kadis submitted his report on his audit of each of the individual taxpayers, in which he said:

"On August 22, 1935 the taxpayer exchanged all of his stock in the Twentieth Century Pictures, Inc., which name was changed to the S. G. Z. Corporation, for stock in the Twentieth Century-Fox Film Corporation in pursuance to a plan of re-organization which the Bureau held to be nontaxable. ***"

Mr. Kadis made no mention of the extraordinary fact, which his investigation must have disclosed, that Zanuck had received a considerably larger proportion of the total Fox stock issued to the Century stockholders than was representative of his proportionate stock holding in Century. It is believed that Kadis made no mention of this fact because he had been bribed by Dover to make a favorable report on or about November 11, 1936, when Kadis is known to have been alone with Dover in the latter's room at the Waldorf-Astoria in New York City. Dover is Zanuck's business manager and attends to his financial affairs.

* - A complete story should be obtained as to how Kadis happened to have assigned to him the audit of each of these returns, including the Fox and Century returns.

There is no direct evidence whatsoever that Dover gave Kadis any money or property in November, 1936, or at any other time. There are various indications that Fox, Goetz, and Zanuck, through Fox, or Dover or both, bribed Kadis in 1937 and 1938, but such bribery probably took place in California rather than in New York. The immediate question is whether the Department of Justice should be asked to have the United States District Attorney in New York secure an indictment of Dover and Kadis (and possibly Zanuck, Schenck and Goetz on the supposition that Dover was acting as their agent) on the ground that Dover paid, and Kadis received a bribe at the Waldorf-Astoria on or about November 11, 1936. There is a three year statute of limitations on the crime of bribery so that unless the indictment is secured before November 11, 1939, it would be impossible to indict Dover or Kadis even though it is definitely ascertained after November 11, 1939, that Dover bribed Kadis in the course of Kadis' visit to Dover at the Waldorf-Astoria.

It seems to me beyond the possibility of doubt that the Treasury Department does not have sufficient evidence of bribery in November, 1936 to request an indictment on that ground.

I understood that all at the conference agreed with this view.

2. Failure to report taxable profit on exchange of Century stock for Fox stock in 1935.

Section 112 (b)(3) of the Revenue Act of 1934 provides:

"Stock for stock on reorganization. — No gain or loss shall be recognized if stock or securities in a corporation a party to a reorganization are, in pursuance of the plan of reorganization, exchanged solely for stock or securities in such corporation or in another corporation a party to the reorganization."

Messrs. Schenck, Goetz and Zanuck maintain that the exchange of their Century stock for Fox stock falls squarely within the exemption provided for by Section 112 (b) (3). They contend that there is nothing in sub-section (3) (unlike sub-section (5)) which makes the exemption conditional on the stockholders receiving stock of the new corporation in proportion to their holdings in the old.

It appears to me that this position is well taken, and that no taxable profit was realized by Messrs. Schenck, Goetz and Zanuck on their exchange of Century for Fox stock.

If no taxable profit was realized, it is obvious that there was no criminal offense in having failed to report in their returns for 1935 that the Fox stock had been received.

3. Failure of Zanuck to report as taxable income the value of certain of the Fox stock received by him in 1935.

It has been noted that Zanuck received Fox stock in excess of the number of shares reflecting his proportionate interest in Century. The Treasury Department maintains that the value of these excess shares

is taxable on the ground that they were received not in exchange for Zanuck's Century stock but as compensations for agreeing to permit Century to transfer his employment contract to Fox, or his subsequent surrender of his Century contract, or his entering into a new contract with Fox, or for a combination of these.

I do not agree with this view, in the absence of evidence that any of the stock was in fact received for property other than stock or for services rendered or to be rendered. If Zanuck had agreed to work for Fox for a substantially lower salary than he was entitled to receive under his contract with Century, I think there might be a substantial basis for the Department's assumption that there was not a 100 per cent exchange of stock for stock, but the fact seems to be that Zanuck's employment contract with Fox was as favorable as that with Century.

I have asked for documentary evidence on this point and reserve judgment until I have seen the documents.

The Department has referred to and quoted telegrams exchanged by Zanuck and Schenck while the merger of Century and Fox was under consideration in support of its position, but I perceive nothing in these telegrams that supports the position.

If the excess Fox stock received by Zanuck in 1935 did not constitute additional compensation, there was, of course, no criminal offense in his having failed to report the value of the stock as taxable income.

4. Making a false statement in affidavits filed in 1938.

On December 23, 1938, Schenck, Goets and Zanuck caused to be delivered to the Treasury Department's investigating agents at Los Angeles affidavits stating that:

"The common and preferred stock of the reorganized company which they received upon the exchange of their common stock of the old Twentieth Century Pictures, Inc. was on the exact pro rata basis of their actual ownership of common stock of said old Twentieth Century Pictures, Inc., to wit, 35% to Schenck, 35% to Goets and 30% to Zanuck."

-7-

It is believed that the statement in the affidavit and the other similar statements were untrue and that Zanuck in fact had only a 20 per cent in the Century common stock. The principal ground for this view is that on May 5, 1935, Zanuck telegraphed Louis B. Mayer:

"Our present division of 40-40-20 is okay now because Joe furnished releasing organization and Billy furnished finance and I produced pictures. But now that is all over and it seems only fair that in the new deal we should all share equally as certainly my job and new responsibility entitles me to at least get what they get."

No dividends were paid on the common stock of Century, so that this important indication of stock ownership is not available.

Mr. Wenchel suggests that the action of Messrs. Schenck, Goets and Zanuck in misrepresenting the facts concerning the stockholdings in Century was in itself a crime under Section 35 of the Criminal Code, as amended (U. S. C. Title 18, Sec. 88), which provides that:

"Whoever shall *** make *** any *** affidavit *** knowing the same to contain any fraudulent or fictitious statement *** in any matter within the jurisdiction of any department *** of the United States *** shall be fined not more than \$10,000, or imprisoned not more than 10 years, or both."

The context of the language quoted might lend some support to the contention that Section 35 applies only to the making of claims against the United States, but offhand, I agree with Mr. Wenchel that Section 35 is applicable to affidavits filed with the Treasury Department in the course of an investigation by the Department of tax liability. If so, the fact that no tax liability was avoided because none actually exists does not, in my opinion, render the statute inapplicable, and

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this view is sustained by the decision of the United States Circuit Court of Appeals in the Second Circuit in United States v. Mellon, et al., 96 F. (2d) 462 (1938); cert. denied 304 U. S. 586.

Other Points Not Fully Discussed.

There is considerable evidence that one or all of Schenck, Goetz and Zanuck were instrumental through Fox or Dover or directly in bribing Mr. Kadis in 1937 and 1938. It seems to me highly advisable that further evidence be sought on this point with a view to prosecution, probably in California.

There is strong evidence in support of the view that Schenck filed fraudulent income tax returns for 1935, 1936 and 1937 (wholly apart from the Fox stock matter).

We did not go into the details of these additional points and I shall, therefore, not discuss them at this time beyond stating that the case against Schenck for additional taxes, civil fraud and probably criminal liability — particularly for the year 1935 in connection with a loss claimed on an apparently fictitious sale of stock — seems to be strong.

Although I would wish to give the matter further consideration before making a final recommendation my present view is that the case against Schenck for 1935 on account of items other than the Fox stock is so strong that the case ought to be presented to the Grand Jury in New York, where Schenck's income tax return for 1935 was filed. There is, however, no occasion to make an immediate decision on this point since the statute will not run for several years. In the course of the Grand Jury investigation on the 1935 return I believe that a

-9-

great deal of other important matter may well be brought out,
including evidence to support our belief that Kadis has been bribed
by Schenck, et al.

Bernhard Knudsenberg.

November 2, 1939

*Knollenberg of
original given
to Sany by Mrs. Kady
at 3³⁰ on 11-3-39*

POSSIBLE CRIMINAL LIABILITY OF JOSEPH M. SCHENCK, DANIEL F. ZANUCK,

WILLIAM GOETS, WILLIAM B. DOVER AND HARRY KADIS

118

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- 8 -

of the Revenue Act of 1954 which was in force in 1955.

In 1956, Kadis, a Revenue Agent attached to the Upper District of New York, audited the 1955 income tax returns of Century and Fox, which were, I think, New York corporations, and, in some way not yet ascertained*, was assigned the duty of auditing the return of Schenck who filed his 1955 return in the Upper District of New York, and also the returns of Goetz and Zanuck who filed their returns in the Los Angeles District.

On December 1, 1956 Kadis submitted his report on his audit of each of the individual taxpayers, in which he said:

"On August 28, 1955 the taxpayer exchanged all of his stock in the Twentieth Century Pictures, Inc., which name was changed to the S. G. E. Corporation, for stock in the Twentieth Century-Fox Film Corporation in pursuance to a plan of re-organization which the Bureau held to be nontaxable. ***"

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-3-

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4. Making a false statement in affidavits filed in 1938.

On December 23, 1938, Schenck, Goetz and Zanuck caused to be delivered to the Treasury Department's investigating agents at Los Angeles affidavits stating that:

"The common and preferred stock of the reorganized company which they received upon the exchange of their common stock of the old Twentieth Century Pictures, Inc., was on the exact pro rata basis of their actual ownership of common stock of said old Twentieth Century Pictures, Inc., to wit, 39% to Schenck, 39% to Goetz and 22% to Zanuck."

It is believed that the statement in the affidavit and the other similar statements were untrue and that Zamuck in fact had only a 20 per cent in the Century common stock. The principal ground for this view is that on May 5, 1935, Zamuck telegraphed Louis B. Mayer:

"Our present division of 40-40-20 is okay now because Joe furnished releasing organization and Billy furnished finance and I produced pictures. But now that is all over and it seems only fair that in the new deal we should all share equally as certainly my job and new responsibility entitles me to at least get what they get."

No dividends were paid on the common stock of Century, so that this important indication of stock ownership is not available.

Mr. Wenschel suggests that the action of Messrs. Schenck, Goetz and Zamuck in misrepresenting the facts concerning the stockholdings in Century was in itself a crime under Section 35 of the Criminal Code, as amended (U. S. C. Title 18, Sec. 88), which provides that:

"Whoever shall make any affidavit knowing the same to contain any fraudulent or fictitious statement in any matter within the jurisdiction of any department of the United States shall be fined not more than \$10,000, or imprisoned not more than 10 years, or both."

The context of the language quoted might lend some support to the contention that Section 35 applies only to the making of claims against the United States, but offhand, I agree with Mr. Wenschel that Section 35 is applicable to affidavits filed with the Treasury Department in the course of an investigation by the Department of tax liability. If so, the fact that no tax liability was avoided because none actually exists does not, in my opinion, render the statute inapplicable, and

this view is sustained by the decision of the United States Circuit Court of Appeals in the Second Circuit in United States v. Mallon, et al., 98 F. (2d) 488 (1938); cert. denied 304 U.S. 586.

Other Points Not Fully Discussed.

There is considerable evidence that one or all of Schenck, Geetz and Zanuck were instrumental through Fox or Dover or directly in bribing Mr. Kadis in 1937 and 1938. It seems to me highly advisable that further evidence be sought on this point with a view to prosecution, probably in California.

There is strong evidence in support of the view that Schenck filed fraudulent income tax returns for 1935, 1936 and 1937 (wholly apart from the Fox stock matter).

We did not go into the details of these additional points and I shall, therefore, not discuss them at this time beyond stating that the case against Schenck for additional taxes, civil fraud and probably criminal liability -- particularly for the year 1935 in connection with a loss claimed on an apparently fictitious sale of stock -- seems to be strong.

Although I would wish to give the matter further consideration before making a final recommendation, my present view is that the case against Schenck for 1935 on account of items other than the Fox stock is so strong that the case ought to be presented to the Grand Jury in New York, where Schenck's income tax return for 1935 was filed. There is, however, no occasion to make an immediate decision on this point since the statute will not run for several years. In the course of the Grand Jury investigation on the 1935 return I believe that a

great deal of other important matter may well be brought out,
including evidence to support our belief that Kadis has been bribed
by Schenk, et al.

(Signed) Bernhard Knollenberg

November 2, 1939
4:20 p.m.

HMJr: Hello.

Operator: Mr. Jones is busy on long distance. I'm waiting for him.

4:24 p.m.

HMJr: Hello.

Jesse Jones: (Talking aside and cannot be understood.)

HMJr: This is Jesse -- this is Morgenthau.

J: Yes, sir. I was calling you. I want to tell you that the -- the Walcott Amendment failed.

HMJr: Yeah.

J: I suppose you might have known it.

HMJr: Yeah, they told me.

J: Ah.....

HMJr: Now whether that leaves you, Jesse, in the clear is another question.

J: Except -- I think it does, Henry. It leaves us in the clear of anything that we want to do.

HMJr: You're -- you're sure of this.

J: Well.....

HMJr: Because our boys sort of think that there ought to be something in the -- taken up in conference on it.

J: Well, you see the -- the only thing that -- I see, the only thing that, and I haven't checked this with the lawyers - the fact that the House repealed this amendment, it seems to me to counteract or kill the -- the statement by Pittman and Taft and George.

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HMJr: Well, would you be willing to see Ed Foley sometime soon and let him.....

J: Yes.

HMJr: Would that be all right?

J: Yeah.

HMJr: Well I'll have Ed call you up.

J: All right.

HMJr: Thank you so much. I appreciate your calling.

GROUP MEETING

November 2, 1939.
9:30 a.m.

Present: Mr. Gaston
Mr. Bell
Mr. Graves
Mr. Haas
Mr. Cotton
Mr. Harris
Mr. White
Mr. Duffield
Mr. Riefler
Mr. Viner
Mr. Cochran
Mr. Thompson
Mrs Klotz

H.M.Jr: Gaston?

Gaston: The Bibb received a message this morning from the Camperdown Radio Station, stating that at 2:27 this morning they had received a message from the S.S. Coulmore, indicating that she was safe. They were satisfied that the message came from the Coulmore, which seemed to end that....

H.M.Jr: Was that radio a fake?

Gaston: We don't know that yet. They weren't able to talk satisfactorily to the Coulmore.

H.M.Jr: Didn't you say last night you thought it was a fake?

Harris: Not from anything I had heard. I just wondered whether it was a fake. It seemed so queer.

Gaston: The radio reception was bad and they weren't able to talk satisfactorily to the Coulmore, but they were satisfied that the ship was safe.

H.M.Jr: Who reports that?

Gaston: Camperdown Radio Station.

H.M.Jr: Where is that?

Gaston: Do you know, Basil?

Harris: I never heard of it.

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Gaston: Is it a Canadian station? The original report came from Camperdown.

Harris: I imagine it is Canadian.

Gaston: I think so.

H.M.Jr: Anything else?

Gaston: I had an invitation to attend a reception at the Russian Embassy and I don't know whether to treat it as an ordinary invitation or not. I thought there might be some angle of policy involved.

H.M.Jr: I'm going to be conveniently out of town.

Gaston: I see.

Cochran: Exchange rates are very steady, still at four dollars.

Cotton: I haven't heard from Mr. Hanes yet on this business, but I....

H.M.Jr: You and I both.

Cotton: I imagine it is still in his hands.

H.M.Jr: Yes, and I am going to leave it there.

Viner: I think we have invitations on our desks. I will turn them over to you, Herbert, if you want to take anybody else along.

Gaston: Thank you, I will be in charge of the delegation.

H.M.Jr: You both (Riefler and Viner) look very healthy. I will see if I can't do something about it.

Viner: Do you want him to get another black eye?

H.M.Jr: George?

Haas: I have nothing this morning.

Harris: Nothing.

Duffield: Nothing.

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White: Nothing.

Graves: Nothing.

Bell: If you want to say something at your 10:30 press conference, I suggest the second paragraph (handing memo to Secretary).

H.M.Jr: "We have received subscriptions for more than fourteen times the amount the amount that has been made public." It seems successful.

Bell: That saves giving an amount, because it may change a hundred million.

H.M.Jr: How much?

Bell: Might change a hundred million. They do policing yesterday and today and then they cut it down some.

H.M.Jr: O. K., what else?

Bell: We have received a request from a Mr. Hellman, in the Department of Commerce, for information as to whether or not there is any competition on the part of the Treasury in selling U. S. Savings bonds. There is a competition, I suppose, with Savings banks.

H.M.Jr: Who wanted to know that?

Bell: Mr. Hellman, who is working for the Committee on the Hill.

Duffield: Monopoly Committee?

Bell: Yes.

H.M.Jr: Is there any competition?

Bell: Yes, and he wanted to know to what extent - whether or not we had had any kicks from banks, and so forth, on the competition of U. S. Savings bonds.

H.M.Jr: Well, we have a member on that Committee, you know, O'Connell.

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Bell: Yes, I know. This gentleman is working for the Committee and he gets up memoranda on these various points, and he has asked the Postal Savings people to give him a similar report, and I have asked him if he would be good enough to let us see that report before it goes in.

H.M.Jr: Send it to O'Connell and ask him what they are after.

Bell: They are after all phases of Government competition with private business. It is the same old question that has been hanging around Washington for 20 years, not only on this end, but on the purchase of supplies and manufacturing of supplies, et cetera.

H.M.Jr: Do you want to handle it?

Bell: Well, I will handle it in a way that won't do them much good.

H.M.Jr: Send them a copy of Tom Smith's report to the American Bankers, which says that baby bonds should be stopped.

Bell: No.

H.M.Jr: Wouldn't you do that?

Bell: No.

H.M.Jr: You don't want to do that?

Bell: No, I don't think so. I think I would tell them that we have had very little kicks from bankers on this, and if there is any competition, it has been insignificant.

H.M.Jr: Well, you handle it.

What else?

Bell: That is all.

Thompson: I was wondering if I could have a couple of minutes today about the transfer of Mr. Bell's staff to the Secretary's office.

H.M.Jr: What do you want me to do, take off my coat and
move them? You fellows can stay right now. Nobody
has any news. Glad to have seen you all.

No. 234

Rangoon, Burma, November 2, 1939.

SUBJECT: Proposal to lay reinforced concrete strips on sections of Yunnan-Burma highway in Yunnan.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D. C.

SIR:

I have the honor to report that the construction of parallel reinforced concrete strips two and one-half feet wide and six inches thick for a total distance of about eighty miles, is one of the proposals for the improvement of the Yunnan-Burma highway in Yunnan.

The estimated cost of the proposed improvement is Rupees 12,000 a mile, or approximately Rupees 960,000 (about \$288,000 at present exchange). Materials required would include about 5,000 tons of cement, steel for reinforcement, and asphalt for expansion joints. It is said that cement produced in Burma would be used.

The proposal is that of P. Y. Tan, director of the Yunnan-Burma highway in Yunnan. The reinforced concrete strips would be laid at places between the Burma border and Paoshan, particularly in the Mangshih and Lungling sections, where the road became impassable at times during the rainy season this year.

Concrete Road Link Near Rangoon Inspected.

A seven-mile stretch of parallel reinforced concrete strips was built in the Rangoon district two years ago as part of a road
road

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to the storage facilities of new municipal waterworks, and it is said to have withstood heavy traffic without damage during the last two rainy seasons. This stretch of roadway was inspected by Mr. Maurice E. Sheahan, Vice President-Treasurer of the Keeshin Freight Lines, Incorporated, of Chicago, and by Dr. Francis K. Pan, of the Chinese Ministry of Communications, when they were here in October.

Mr. Sheahan reported that the strips were laid on a solid laterite foundation, and he said that unless the road foundation in Yunnan was strong there would be danger of truck traffic breaking up the concrete. He expected to confer with the director of the Yunnan-Burma highway concerning the proposed construction after inspecting the highway.

According to Chinese reports, the sum of Ch. \$13,000,000, or more than U.S. \$1,000,000 at present exchange, has been made available for the improvement of the Yunnan section of the Yunnan-Burma highway during the dry season now opening.

Improvement of Burma Section Starts.

The Defense Department of the Government of Burma reports that considerable work is already in progress under the plan to make the Burma section of the Yunnan-Burma highway a "first-class" road before the rainy season of 1940 (reference despatch no. 207, of August 12, 1939). It is said that a proposal to use reinforced concrete strips on that section was considered by the Public Works engineers, but that it was rejected on the ground that such construction would be much more costly, and that it would offer no advantage over a tar-surfaced macadam road. The surfacing of the

the

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the metalled road with tar is expected to cut down maintenance costs at least 60 percent. It is stated that the engineers in charge of the improvement of the highway from Lashio to the border are confident that the work can be completed during the next six months.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to American Embassy, Chungking.
4. Copy to American Consulate General, Calcutta.
5. Copy to American Consulate, Yunnanfu.

800
ACB/cp

Original ret'd to Hanes by Hays at
luncheon 11-2-39

November 2, 1939

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To: The Secretary

From: Mr. Hanes

Yesterday I had persuaded John Williams to go to Guatemala. He asked for 24 hours in which to explore the situation further before asking President Cugat for leave of absence in order to make the trip. Mr. Williams has gone into this matter thoroughly with people in State Department, and perhaps with others, with the result that he advised me this morning that he definitely cannot undertake the mission at this time.

Mr. Williams said that if the conference is postponed until January he will then be delighted to make the journey as this would give him ample time in which to get ready, and also the conference beginning here on November 15th with representatives from 21 American Republics will have become history.

My recommendation to you is as follows:

(1) Unless some substantial personality connected with the Treasury or the Federal Reserve heads the mission the Treasury is going to be placed in a most unfortunate light.

(2) We have exhausted all possibilities and have no further suggestions on a man to represent the Treasury.

(3) I understand that Mr. Duggan of the State Department has stated that he will refuse to go unless some senior representative from Treasury is willing to attend.

(4) This brings me to the conclusion that the Treasury should notify State Department that it is in our opinion highly desirable that the Guatemala conference be postponed until January, and an agreement be obtained from John Williams at this time as to the date he will be available for the journey.

(5) That the State Department be authorized to announce to the South American countries at this time that Mr. Williams will head the mission, and that we have asked for this postponement due to the fact that neither Mr. Williams nor any other senior executive of the Treasury can possibly leave Washington now.

(6) I do not believe there is any other alternative, and feel in view of the agenda for the Guatemala conference that it would be suicidal from our standpoint to let anyone represent us who is not fully qualified to

Mr. Hanes handed original to
Secretary at luncheon today - 11-2-39

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discuss all phases of: (a) the gold standard, (b) currency stabilization, (c) foreign exchange policy, (d) a thorough familiarity with the declarations and recommendations adopted at the Montevideo, Buenos Aires and Lima conferences, (e) the policy of central banks and their relationship to the States, (f) the increase and extension of credit to the various countries in all its phases.

(7) I hope you can persuade the Secretary of State to postpone the conference.

RE COLOMBIAN FINANCE

November 2, 1939.
3:30 p.m.

Present: Mr. Welles
Mr. Feis
Mr. Frank
Mr. Jones
Mr. Collado
Mr. Duggan
Mr. Cotton
Mr. Riefler
Mr. Hanes
Mr. White
Mr. Cochran

- H.M.Jr: The reason that we called this meeting today is that this committee of Mr. Jones and Mr. Welles and myself were meeting, with the approval of the President, to try to work out a formula to solve the financial difficulties of "A" country in this hemisphere, having solved our own, completely. The question comes up of their debts to private citizens and I think in the course of one of the meetings at luncheon that we had, you (Frank) said that SEC had a lot of information on the debts owed by South American Republics to our citizens.
- Frank: I may have been over-stating. I think we have some data.
- H.M.Jr: Well, with that in mind, we asked if you would come over and tell us what you felt the SEC could do to be helpful in this matter.
- Frank: I wish I had known that. I wanted to bring my man along, who is much more familiar with it than I. You (Feis) know Lincoln. I think he is pretty well informed. I ought to bring him, because....
- H.M.Jr: I thought you knew.
- Frank: I didn't know you wanted to get that information today. I may be able to get him now.
- White: Are you sure the Secretary has in mind the specific situation as to....
- H.M.Jr: I don't mean the data, in dollars.

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Frank: No, I know.

H.M.Jr: How far could you go, legally, and how far would you like to go?

Frank: We have got the problem, of course, of the registration of those securities and the question is how far we can go within the limits of that statute to obviate difficulties that might arise in disclosures. I don't know how far we can go. I think we are somewhat straight-jacketed, I am not sure. The man that I should have brought over is Lincoln, who, as Mr. Feis knows, did a great deal of work under Bill Douglas in connection with the Protective Committee studies on foreign bonds, and who since has been in touch with the registration in connection with those and with that Board of Visitors that scrutinized, to some extent, the activities of the Foreign Bondholders Council. He has been the man that was on the firing line there. My own first-hand knowledge of it is very limited.

H.M.Jr: I see.

Hanes: I thought it was rather to find out if the SEC couldn't be helpful in the Protective Committee work for the private investors; in other words, looking after the interests of the private investors in this country, to whom are already owed monies by South American countries.

Frank: I think they could.

Hanes: With the idea of exploring the possibility of getting the SEC's cooperation with the Treasury, State, and Mr. Jones, when we are about to lend money to South America, what kind of a settlement could you make with the bondholders of this country, with the SEC looking after the investors' interest and to keep them apprised of the kind of deal we were trying to make with the investors in this country, so that the problem wouldn't crop up of the SEC saying, "This isn't a fair deal from the standpoint of the SEC for our investors in this country;" in other words, to take the SEC right along with us every way.

- Frank: We will be delighted to do it. I will speak for myself at the moment, but I think the Commissioner would go along in any way that we could on the basis of our statutory powers or extra-statutory methods, because I think it is an important problem, both for the investors and for the welfare of the country in South America.
- Jones: You would have to register any new securities, wouldn't you?
- Frank: Yes, sir.
- Jones: You would have to come in on that?
- Frank: We would have to come in on that.
- Jones: So, if a new security was worked out for the public, you would have to do that?
- Frank: That is correct, and any committees that were formed would have to register.
- Hanes: You would have to pass on the committees, too, wouldn't you?
- Frank: They would have to register their material.
- Jones: The committee for the bondholders.
- Feis: In most of the settlements that have been recommended, there haven't been any new securities. As a matter of fact, I can only think of one or two, offhand, that involved any new registration.
- H.M.Jr: The registration....
- Frank: The registration, so far, has been....
- Jones: Could you, if the old bonds - if there is not a new issue, but they were merely stamping an old bond, changing the terms, I assume you would have to concur in that, or would you?
- Frank: I think so. We got a decision from the Court of Appeals in the Second Circuit last year, involving a domestic company, in which it was held that a renewal or extension was a security and that soliciting of an extension was the soliciting of a security.

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- Hanes: You would have to?
- Frank: That Associated Gas case.
- Hanes: They would have to apply to you before they could solicit, wouldn't they?
- Frank: I think that is correct.
- Jones: And you would have to approve that?
- Frank: Yes, and also they will have to file their data on the registration form and we would have to be satisfied that that was correct, that is, that it was honest.
- Jones: It probably would not be necessary, you think, then, to issue a new bond, but merely to say instead of paying eight percent interest, they were going to pay four percent interest?
- Frank: I don't think there was anything in our statute that would affect that. They would have to register, but there is no reason why they couldn't do it, as far as our statute was concerned.
- Welles: Without prior approval?
- Frank: We don't have to approve the security. We don't have to approve the issue, as such.
- Peis: As I say, the settlements that were reached, there were new securities issued in only one or two cases and unless I am mistaken, there has been no new registration certificate required except in connection with the listing on exchange, with which you already were concerned.
- Frank: That is right, their annual reports. For instance, this recent program against the German bonds, which was discontinued because they withdrew, involved the failure to bring their data up to date in connection with their solicitations of conversion bonds.
- H.M.Jr: Let me ask this question. Confidentially, the State Department has selected Colombia as the country that we are going to try to do a job for. In connection

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with their private debt, would you think over, talk over with the Commission, how much assistance you could give us in coming to some sort of an agreement?

Frank: Yes, sir.

H.M.Jr: I mean, just how far you can go and how far you would like to go, not just to sit back and wait until the stuff is brought to you.

Frank: I could say - I am sure we would be delighted to be helpful in any possible way and I think probably we can be, don't you (Feis) think so, or don't you?

Feis: I have no opinion.

Frank: Well, you know what the contacts have heretofore been.

Jones: I have got documentary evidence here to submit. I would like to submit that to the meeting.

H.M.Jr: I will have to give this to one of the Spanish students.

Jones: A man read in the paper about this committee and sent me a bond and says he has 198 more just like it.

Welles: What country was that?

Duggan: This is the Bank of the State of Rio de Janeiro.

H.M.Jr: Mr. Welles and I, at least, are glad that we know that they know where to go. We will have to open up a new department.

Jones: They knew they couldn't get anything out of the Treasury.

H.M.Jr: Well, after they see you have a successful financing....

Jones: Then I get this letter.

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Hanes: What is it, a bond on the....

Duggan: It is a bond of a bank, not of any federal government. I never heard of that issue. It is an issue....

Jones: What is the date of it, when was it issued?

H.M.Jr: 1900.

Collado: It is a mortgage bond issued by a State bank.

Jones: S. W. Straus & Company, or something like that?

Feis: Probably, yes.

Jones: Well, I guess we....

Frank: Mr. Secretary, I would just like to say I am here as an individual and what I said, of course, I have got to take back to my Commission. I suggest I do this, take it back and get their views and let you know just what data we have, what mechanisms we have and just how we can be helpful. Supposing I indicate that to you?

H.M.Jr: At a fairly early date?

Frank: Yes, indeed, sometime tomorrow.

Welles: May I clear up this one point. If I understand correctly, what it really amounts to is whether the SEC feels it has any statutory power to represent the private bondholders in a negotiation.

Frank: I would doubt that. As a matter of fact, I can say unequivocally that we have no statutory power. I know that. John knows that.

Jones: You will just have to keep us in line.

Frank: We will have to see that the lines are kept open, but we have no power to represent anybody more than anybody here would. Somebody over in our shop might raise captious objections about registration form or solicitation material.

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Jones: How much will you (Duggan) give me for it?

Duggan: About three cents.

Jones: Sold!

Duggan: That went into default before the depression, Mr. Jones. 1927 was the last coupon.

Jones: Maybe it will come to life. Three cents?

Duggan: That is high.

H.M.Jr: Well, while we have the benefit of Mr. Frank's presence, does anybody want to ask him anything other than if he would take it up with the Commission and see how far they can go?

Jones: I suppose we ought to do that.

Frank: Yes. I can say, without going back to the Commission, that we have no statutory power to represent anybody.

Jones: No, you just....

Frank: Any more than you would, Mr. Jones, and less, perhaps.

Jones: If it comes to the registration, of course you have got to do that, and if they don't even stamp the old bonds....

Frank: I would think so, on the basis I mentioned, but I will let you know about that.

Jones: I think you ought to do that in the interest of the bondholders.

Frank: I think so.

Hanes: The bondholders would accuse you of not looking out for their interest if you let some phoney deal ride.

Jones: That is probably as far as you can go, too, isn't it?

Frank: I think so.

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H.M.Jr: Do you want to ask these gentlemen anything?

Frank: No, I have nothing to ask.

H.M.Jr: I don't think we can do much more today.

Welles: No.

Frank: I will send that letter promptly, and I will send copies to you, Mr. Jones, and you, Mr. Welles.

Rangoon, Burma, November 2, 1939.

CONFIDENTIAL

SUBJECT: Estimate of cost of operating and maintaining a motor-transport system in China.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON, D. C.

SIR:

I have the honor to report that the annual cost of operating and maintaining a motor-transport system in China covering 7,000 kilometers (4,350 miles) and involving 5,000 motor vehicles would be Ch.\$121,051,061 (about US\$10,000,000 at present exchange), according to an estimate made in a report prepared for the personal information of Dr. H. H. Kung, President of the Executive Yuan of China (Premier) and Minister of Finance, by Mr. D. F. Myers, an American mechanical engineer who is with the Ministry of Finance in an advisory capacity.

Mr. Myers' report was presented to Dr. Kung on August 19, 1939, and it bears a notation to the effect that it was "approved in principle" by Dr. Kung on September 5, 1939. A copy was turned over to Mr. Maurice E. Sheehan, Vice President-Treasurer of the Keeshin Freight Lines, Incorporated, of Chicago, for his information, and this copy Mr. Sheehan had with him when he came to Rangoon in October.

Heavy Expenditures for Supplies.

The estimate of annual cost included supplies, depreciation, salaries, interest, overhead charges, and handling charges. Of the total estimated, supplies were shown as requiring Ch.\$104,450,475 (about US\$8,878,000 at present exchange). The principal supplies needed and the costs in United States currency were set down as follows: gasoline, 25,000,000 gallons, \$6,250,000; diesel oil, 1,000,000 gallons

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\$200,000; lubricating oil, 100,000 gallons, \$100,000; spare parts, \$300,000; tires and tubes, 2,000, \$55,000.

The report stated that on the basis of 5,000 motor vehicles operating 200,000,000 kilometers, serviced and maintained under the system outlined, the cost would be Ch.\$0.6053 (now about US\$0.05) a kilometer.

To inaugurate a motor-transport system such as that contemplated, Mr. Myers estimated that a capital outlay of US\$497,500 and Ch.\$2,967,500 (about US\$252,000) would be required. He placed the number of workshops necessary at 157. Roads in the Northwest were not included in the calculations, the highway network consisting only of the following units: Yunnanfu to Burma border, 975 kilometers; Chungking to Yunnanfu, 1,165; Luichow to Yunnanfu, 915; Kweiyang to Chen-nan-Kwan, 1,045; Changsha to Kweiyang, 800; Kweilin to Ta Tung, 306; Hochi to Kaopin, 520; San Chi Chang to San Chien Pan, 820; Chengtu to Chungking, 445.

Yunnan-Burma Highway Needs.

Mr. Myers, in company with Mr. Tsang Ou, a member of the Executive Yuan of China, traveled over the Yunnan-Burma highway in both directions during the recent rainy season, making the round trip in the month of July (reference despatch no. 198, of July 25, 1939). He recorded as his convictions in regard to that highway that in order to get anything like an adequate return from the money already expended considerable additional money would have to be spent; that until the road was improved there was little use of maintaining trucks in good condition; that control of drivers and of traffic generally was essential, and that control of maintenance, service and supply should be in the hands of a single agency. He observed that the equipment purchased by the Highway Administration was of little use except for construction purposes, and that there was great need for equipment for the removal of earth slides, which were then occurring daily.

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Facilities for Export Via Rangoon:

With reference to the shipment of export cargo from China, Mr. Myers held that some of the cargo should be sent via Rangoon in order to assure the Burma officials that their action in providing a road and in reducing freight rates had not been "in vain". He stated that the head of the Burma Railways had told him that the Lashio branch was capable of handling 60,000 tons a month - 1,000 tons a day in each direction, and that a maximum of twelve trains a day, each carrying 180 to 200 tons, was possible.

Expenditures on Burma Section of Highway.

Information obtained by Mr. Myers concerning expenditures on the Burma section of the Yunnan-Burma highway was given in his report as follows: Cost to date, exclusive of expenditure in 1938, Rupees 700,000 (about \$252,000); expenditure in 1938, Rupees 369,018 (about \$132,846); appropriations for making road "first class" - materials, Rupees 250,000 (\$75,000 at present exchange), engineering and labor, Rupees 300,000 (\$90,000 at present exchange); total expenditure, Rupees 1,619,018 (about \$549,846). The length of the Burma section is 116 miles.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. Original and four copies to Department
2. Copy to Embassy, London.
3. Copy to Embassy, Chungking.
4. Copy to Consulate General, Calcutta.
5. Copy to Consulate, Yunnanfu.

800
ACB/wp

November 3, 1939

The President asked me what I thought he ought to tell Bullitt in regard to the attached and I said that he should have Monnet come to this country. Subsequently I told the President the whole story about Monnet being Sir John Monnet and how he got this through the intervention of Sir Robert Kindersley and the whole hook-up with Lazard Freres.

THE WHITE HOUSE
WASHINGTON

November 3, 1939

CONFIDENTIAL MEMORANDUM FOR
H. M. Jr.,

Please read and return. What
do you think I should say to Bullitt?

F. D. R.

Enclosures

Paris, October 18, 1939.

Personal and
Strictly Confidential

Dear Mr. President:

I enclose herewith the agreement drawn up by the British Government and Jean Monnet covering economic cooperation. Personally, I think Monnet should head the Committee in London, and I should like to see Bob Brand at the head of the Joint Purchasing Commission in the United States.

In any event, I hope that Monnet will go to Washington to put through the business of enlarging the productive capacity of our airplane industry. The experience he had last winter has given him a knowledge of the possibilities of our industry that no one else in either France or England possesses - and every day will count.

I don't like to say so in a telegram, but I really believe that there is an enormous danger that the German Air Force will be able to win this war

The Honorable

for

Franklin D. Roosevelt,

President of the United States of America,

Washington, D. C.

for Germany before the planes can begin to come out of our plants in quantity. I think we should encourage the French and British in every way possible to place the largest conceivable orders. If, before those orders are completed, the French and British shall have been defeated, we shall need the planes for our own defense.

You may still be interested in that island; but our Navy doesn't seem to be so much interested. I had my Naval Attaché telegraph to the Navy Department the text of the contract that the French Government is prepared to sign, more than ten days ago; and in spite of another telegram from the Naval Attaché asking whether the Navy Department wants to sign this contract, we have had no reply!

There has never been any question about the readiness of the French Government to let us have the island; but it was very difficult to find a legal adviser of the French Government who had not been mobilized or was not snowed under with war work to go over the contract. I had to push hard. Before you get this letter, the matter probably will be settled. If not, I shall probably send you a telegram couched in diplomatic language expressing the thought - What the Hell!

Everyone in Paris is expecting a major German attack to break the moment the present rains stop. Our preparations are superb. I have converted a wine cellar in the
basement

basement of the Embassy Residence, under the front steps, into an abri. It is not in the least bombproof; but I have hung in it the Turkish and Bokharan embroideries that I used to have in my house on the Bosphorus, and it is the last word in Oriental style and comfort, so that when the bombs begin to drop you may imagine Offie and myself tucked away in a Selamlık!

Our motto is: "We don't mind being killed, but we won't be annoyed."

Love and good luck.

Yours always,

Bill

(COPY)

S E C R E T

MACHINERY FOR COORDINATION OF ANGLO-FRENCH
ECONOMIC WAR EFFORT

I. PERMANENT EXECUTIVE COMMITTEES.

(a) Composition.

Permanent Executive Committees will be formed to provide for Joint Anglo-French action in the various departmental fields, e.g., food, armaments, etc. These Committees will consist of a few British and French members appointed by their respective Ministers. It is essential that both French and British members should be selected in such a manner as to carry the required authority with their national Departments, and that they should be given by their Ministers wide enough powers to permit prompt decisions by the Executive Committees. This point is of the utmost importance to the efficient working of the Executive Committees which are to be permanent organs carrying out joint action and administrative tasks.

Ministerial consultations will take place at meetings to be held either in Paris or London as and when necessary between the Ministerial Heads of the Departments concerned in order to take whatever decisions are required in connection with the activities of the Executive Committees, and to give them the
necessary

necessary directions. These meetings will be known as "Councils".

(b) Functions.

The functions of the Executive Committees will be:

- (1) To lay down a programme of the requirements of the two countries in the particular field covered by each executive committee and, where possible, to establish an ad hoc inventory of the resources of each country in that field.
- (2) To secure the best utilization in the common interest of the resources of the two countries in raw materials, means of production etc., and, so far as may be possible, to provide for a fair allocation of cuts arising out of the necessity for the restriction of programmes.
- (3) Having regard to the above considerations, to formulate Joint Allied programmes of imports.
- (4) To organize purchases under such agreed programmes of imports in such a way as to prevent all competition between French and British purchases. This will in most cases entail the making of purchases through a single purchasing organization, the form of which should be adapted to suit the particular conditions prevailing in different countries.
- (5) To ensure that such programmes are effectively carried out.

(c) Sphere of Activities.

In the first instance Permanent Executive Committees should be formed to deal with:

- (1) Food.
- (2) Shipping.
- (3) Munitions and Raw Materials.
- (4) Oil.
- (5) Air Production and Supply.

The Permanent Executive Committee for Shipping will be entrusted with the important responsibility of providing for the allocation of tonnage at the disposal of the Allies

(including

(including neutral tonnage) which is required for carrying out the agreed programmes of imports of the other Executive Committees.

It may subsequently be desirable to add to the number of Permanent Executive Committees; moreover Sub-Committees can, if necessary, be formed to deal with particular products such as wheat, sugar, chemical products, ores, etc. Coal is a separate subject which will require special treatment.

II. ANGLO-FRENCH COORDINATING COMMITTEE.

(a) Composition.

The Committee should consist of six to eight members and should be drawn from a panel comprising, on the British side, the members of the existing Interdepartmental Committee for Anglo-French Supply and Purchase of War Material etc., on the French side, the Heads of the French Executive Committees in London. The personnel could be varied according to the subjects on the agenda. The committee should have a fulltime Chairman who should be appointed jointly by the two Governments as an Allied Official. Although in no sense an arbitrator, he would do his best from an allied as opposed to a national point of view, to adjust differences and obtain decisions. Although the Committee would sit in London the Chairman must be able to visit Paris frequently to consult with French Ministers.

The Committee should normally include representatives
of

of the Treasury and the Ministry of Economic Warfare on the one hand, and the French Ministries of Finance and Blockade on the other, in order to ensure that the Committee's decisions take into full account the requirements and the policy of those Departments.

(b) Functions:

- (1) To coordinate the work of the Permanent Executive Committees.
- (2) To deal with differences of opinion arising out of the supply and purchase of munitions, food, coal and other commodities which affect more than one Executive Committee or which raise important questions of principle or priority.
- (3) To coordinate the work of Allied Purchasing Missions abroad.

III. SUPREME WAR COUNCIL.

It is contemplated that there should be in due course an Economic Section of the Supreme War Council which will settle broad issues of policy.

12th October, 1939.

TREASURY DEPARTMENT

159

INTER OFFICE COMMUNICATION

DATE November 3, 1939.

TO Secretary Morgenthau

FROM

Mr. Haas *HA*

Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Oct. 24: Winnipeg reported that the English government had bought 2,000,000 bushels of wheat. The visible supply of Canada continues to increase rapidly, with an increase last week of 16,500,000 bushels, bringing their total to 336,566,000 bushels, which is the largest on record, as against 174,873,977 bushels a year ago.

It was reported today that 250,000 bushels of corn had been sold for shipment from Montreal to England.

Oct. 25: Sales of Manitoba wheat to the United Kingdom today are estimated at around 500,000 bushels or more. Exporters are reported to have made purchases of 1,000,000 bushels of Winnipeg futures, but even with this buying the Winnipeg October closed 1/8 lower. London reported that Hungary had sold 36,000 tons of wheat flour and 4,000 tons of feeding flour to Germany. Switzerland is buying 20,000 tons of Roumanian wheat.

Oct. 26: Broomhall reported that the Australian government is negotiating for the sale of an additional 50,000 tons of flour and about 2,300,000 bushels of wheat to England.

Oct. 27: Reports indicated that rains for the past few days had missed the most important producing sections, failing to reach the hard wheat area where the big wheat acreage is located. H. C. Donovan, crop expert, reported that the situation in the Southwest was the worst that he had seen in his 55 years of experience in the grain field.

Secretary Morgenthau - 2

Oct. 28: Foreign demand for Canadian cash wheat was slow today.

It is said that large amounts of corn are scheduled to be shipped to eastern ports for winter storage so that the grain will be in position to ship to Europe in case of a good demand developing later in the season.

Oct. 30: It was reported that about 250,000 bushels of Manitoba wheat had been worked to the Continent. Foreign demand was very disappointing. It is estimated that Roumania has sold about 28,500,000 bushels of new crop wheat, and of this amount about 3,500,000 is destined for Italy. Shipments of wheat for export from Argentina last week amounted to 3,700,000 bushels. Wheat shipments for the year to date from Argentina amount to 3,770,238 tons, against 1,803,046 tons last year during the same period.

November 3, 1939

RE: JOSEPH M. SCHENCK, DARRYL F. ZANUCK, WILLIAM GOETZ, WILLIAM B. DOVER AND HARRY KADIS.

I concur in Mr. Knollenberg's memorandum dated November 2, 1939 but think it may be helpful to submit the following comments in amplification:

1. The bribery of Revenue Agent Kadis in November, 1936.

As stated by Mr. Knollenberg, the Department has not sufficient evidence at the present time to warrant an indictment for the act of bribery alleged to have occurred in November, 1936. However, this does not mean that no criminal action should be taken in connection with the bribery charge, including this specific act. The facts indicate clearly that Agent Kadis was bribed and warrants presentation to a Grand Jury. Such presentation should be as part of an investigation into other related matters, as hereafter indicated, and not as an isolated fact.

The following are some of the known facts presently susceptible of proof: Special Agent Kadis accepted substantial favors and gratuities from the taxpayers, including the use of a limousine automobile at a cost to Twentieth Century-Fox Film Corporation of almost \$3,500; he secured the employment by this company of a young lady of his acquaintance at a compensation of \$100 a week, which employment lasted for several years up to and including February, 1939; he was assigned to a further field investigation in 1938 and promptly notified Dover of this assignment, whereupon, Dover

- 2 -

cabled Zamuck, who was then in Paris, that he had received a telephone call from Kadis, "our tax man New York", who explained that he had been assigned to the case and felt that this was an "unusually good break falling into his hands instead of others"; Dover, who was neither an attorney or tax expert secured a power of attorney from Mr. and Mrs. Goetz, who had their own counsel, and proceeded to New York for the preparation of affidavits; and Kadis actively participated in the preparation of these affidavits.

With these and other facts it is believed that bribery can be established, not only as against Kadis but those who gave the bribe.

Consideration should also be given to the advisability of proceeding under I. R. C. Section 4047(e), R. S. 3152, so far as Kadis is concerned, and with a conspiracy charge so far as others are concerned. As stated in a memorandum of Elmer Irey dated October 30, 1939 the persons responsible for the bribery and the conspiracy should not escape punishment.

The original recommendation of the Bureau in this respect is fully warranted by the known facts. Although this task will be made more difficult by reason of the rather perfunctory Grand Jury investigation already made, the situation is sufficiently serious to warrant further action. The Grand Jury investigation only took one hour and twenty minutes, and consisted of calling two hostile witnesses whose testimony might have been helpful but who were given the opportunity to see the Government's hand and to put white-washing denials in the record.

- 3 -

In spite of this it is recommended that further action be taken and it is believed that this can be done in connection with the prosecutions hereafter recommended.

2. Failure to report taxable profit on exchange of Century stock for Fox stock in 1935.

I agree with Mr. Knollenberg that the reorganization did not result in taxable profit to Messrs. Schenck and Goetz. The criminal liability of Messrs. Schenck, Goetz and Zanuck will be discussed in item 4. The tax liability of Zanuck will be discussed in point 3.

3. Failure of Zanuck to report as taxable income the value of certain of the Fox stock received by him in 1935.

As pointed out by Mr. Knollenberg, Zanuck would have no taxable gain if the stock he received in the new company was in pursuance of the plan of reorganization "solely for" his Century stock. (Section 112(b)(3)). The documentary evidence as to whether part of this stock was actually received in return for other benefits, such as a more favorable employment contract, is not yet available for our examination. Disparity in the proportion of stock received is indicative that this may be the fact and would seem to warrant the Bureau in making an assessment for deficiency against Zanuck. If this cannot be established, nevertheless, affidavits furnished by Messrs. Zanuck, Schenck and Goetz furnish another basis for assessment. In these affidavits dated December 23, 1938 they state, under oath, that Zanuck owned 30 per cent of the old Century stock (I have not seen these affidavits, but assume that the excerpts furnished are correctly quoted).

If it be a fact that Zanuck did own 30 per cent of the stock prior to the reorganization there must have been a taxable gain to him at the time when his interest was increased from 20 per cent to 30 per cent. No such gain has been reported by him and his tax liability for the gain is clear.

4. Making a false statement in affidavits filed in 1938.

I agree that section 35 of the Criminal Code is applicable and recommend presentation to a Grand Jury of the facts concerning the acts of Messrs. Schenck, Goetz and Zanuck and others.

In spite of the conduct of the taxpayers subsequent to the reorganization, it seems doubtful to me whether a conviction could be obtained if there was no original tax liability. For the reasons stated above, however, I feel that there was such liability on Zanuck's part. If in fact there was such liability I recommend prosecution of those persons whose acts violated the provisions of section 35.

In this connection it should be noted that there is evidence available, to indicate that Messrs. Schenck and Goetz had a financial interest in aiding Zanuck from escaping tax liability. Messrs. Schenck and Goetz induced Zanuck to enter into the plan of reorganization and would be placed in a very difficult position vis-a-vis Zanuck if such reorganization resulted in tax liability to Zanuck and not to them. It is worthy of note that in the letter appended to the plan of reorganization Messrs. Schenck, Goetz and Zanuck indemnified the corporation against tax liability arising out of the reorganization. Tax liability against Zanuck might well

- 5 -

indicate to them the possibility of tax liability against the corporation. Such liability would have resulted in a huge obligation to Messrs. Schenck and Goetz. This indemnity to the corporation and the surrounding facts indicate strongly that Messrs. Schenck and Goetz may also have agreed to indemnify Zanuck against tax liability.

It is in connection with Grand Jury proceedings under section 35, that I feel facts can be developed on the bribery charges against Kadis and the others. Many of these acts occurred in New York, the place where both Schenck and the Corporation filed their returns. It is recommended that the criminal proceedings be initiated in the Southern District of New York.

5. Schenck's liability on his 1935, 1936 and 1937 returns.

As pointed out by Mr. Knollenberg, there is strong evidence, wholly apart from the reorganization question, that Schenck filed fraudulent income tax returns for 1935, 1936 and 1937. This is the subject matter of a letter from the Bureau to the Department of Justice dated July 14, 1939. Although we have had no opportunity to go into this matter fully, my examination of the available papers indicates that in 1935 Schenck took a false deduction of \$173,228.33 on an alleged loss resulting from the sale of stock in a Mexican corporation. This stock was alleged to have been sold by him in December, 1935 for \$50,000, although in that year he received dividends of \$33,853 on that stock. The alleged purchaser of the stock apparently was without funds and Schenck provided him with funds to make the so-called payment of \$50,000. In this 1935 return Schenck took deductions for expenses of which over \$28,000 seemed to be clearly

- 6 -

false. Although his contract with the corporation entitled him to reimbursement for "reasonable traveling and living expenses while away from home" he made deductions in his personal return, for what he called business expenses and for such items as an automobile purchased for a lady friend, flowers, salary of his valet, personal barber, etc. In his returns for 1936 and 1937 similar deductions appear. In my opinion there seems ample justification for an additional assessment against him by reason of the alleged loss of stock in 1935 and false deductions for 1935, 1936 and 1937. I likewise feel that the facts warrant a fraud penalty and criminal prosecution.

General Comments.

Although I do not agree that the known facts bear out the Bureau as to its contention that the tax liability resulted to Messrs. Schenk and Goetz by reason of the reorganization, I do agree fully with the recommendations of the Bureau heretofore made that the facts called for criminal prosecution. Indeed, it seems to me that on the basis of the Bureau's investigation it would have been derelict in its duty if it had not made a recommendation for action by the Department of Justice.

Although it may be beyond the scope of this memorandum, nevertheless, I am taking the liberty of making a further suggestion. It is my feeling that where the Bureau makes a recommendation for criminal action arising out of a tax situation, an assessment should be made against the taxpayer prior to the institution of criminal proceedings. Such assessment should, of course, not be made without consultation with those officials in the Department of Justice who will be charged with the responsibility of conducting the criminal proceedings.

-7-

I am cognizant of the difficulties in connection with the adoption of such a new procedure and I understand the reasons why it has been long established policy to postpone making the assessment until after the criminal proceeding. However, I feel that the Supreme Court's decision in the Mitchell case in overruling the Coffey case eliminates many of the objections that heretofore existed. The criminal prosecution of a taxpayer to-day without a prior assessment furnishes the taxpayer with an opportunity to cry "persecution" by alleging that he is being criminally prosecuted without being given an opportunity to pay his tax. Such an argument might prove a weighty one before a jury in prosecution under section 35. It is believed that if the facts warrant an assessment, such an assessment should be made, to remove the inference referred to above, and to make available the implications which such an assessment bears. It is my belief that such procedure would strengthen a prosecution under section 35, and, indeed, any prosecution rising out of a tax fraud.

Respectfully submitted,

C
O
P
Y

*Not a bribe. He's wanted
Knollenberg to see
original source. See by Mr. Hartley 3rd
November 3, 1939 11-3 '39*

RE: JOSEPH M. SCHENCK, DARRYL F. ZANUCK, WILLIAM GOETS, WILLIAM B. DOVER AND HARRY KADIS.

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- 7 -

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Respectfully submitted,

November 3, 1939

FOR THE SECRETARY:

Attached is the last set of notes on the April meetings which I plan to give to Bob Kintner at present. However, the material which I have had so far does not answer two questions, the first of which Bob has already asked me and the second of which I am sure he will ask me as soon as I give him these final two pages. The first question is: Did the British volunteer the information which their Treasury cabled to us through Butterworth, setting forth their financial plans on the outbreak of war? The second question is: What was the final outcome of the inquiry which the United States Treasury addressed to the Tripartite countries, asking for consultation on their financial plans in the event of a war? Did the consultation ever take place, and if not, why not?

ESD

PAGES 176,177 PLACED IN
BOOK 179, PAGES 272A-B
(4/15/39)

not read

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

MJ

DATE November 3, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was more active with greatly increased volume in sterling transactions. At the opening, sterling was quoted at 4.00 and shortly after it was reported that the Chase Bank had foreign bank orders to sell about £200,000. After the offering of this sterling appeared in the market, the rate eased and in the early afternoon it was quoted at 3.99. The rate remained fairly steady until shortly before the close, when some forced came on the market. It then again receded and closed at 3.98-1/2.

Sales of sterling by reporting banks in New York totaled £658,000, from the following sources:

Commercial concerns.....	£ 158,000
Foreign banks (Europe, Far East and South America).....	£ 500,000
Total.....	£ 658,000

Purchases of sterling amounted to £660,000, as indicated below:

By commercial concerns.....	£ 257,000
By foreign banks (Europe, Far East and South America).....	£ 403,000
Total.....	£ 660,000

The banks also reported that the British Control purchased sterling amounting to £65,000 at the official rate of 4.02. All of this sterling represented cotton bills.

The rates for the other important currencies closed as follows:

French francs	.0226-1/8
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1666
Canada	10-5/16 ¹ / ₂ Discount

The Chinese yuan continued to improve and was quoted at .08-15/16. This is the highest quotation for the yuan since it started to improve.

We sold to the Central Bank of Argentina \$2,500,000 in gold which was placed in its earmarked account with the Federal Reserve Bank of New York.

CONFIDENTIAL

- 2 -

We purchased from the Netherlands Bank \$1,700,000 in gold from its earmarked account.

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

\$ 302,000 from India, consigned to the Bank of Montreal, New York, for sale to the U. S. Assay Office at New York.
 20,000 from England, consigned to the Canadian Bank of Commerce, New York, for sale to the U. S. Assay Office at New York.
 2,088,000 from South Africa, consigned to the Federal Reserve Bank of New York, to be earmarked for account of Netherlands Bank at the Federal Reserve Bank of New York.
 2,654,000 from Hungary, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the National Bank of Hungary at the Federal Reserve Bank of New York.
\$5,064,000 Total

We have been advised by cable from our Embassy in London that the Bank of England is making one shipment of gold, valued at approximately \$2,000,000, to the Federal Reserve Bank of New York. Although our advice does not so indicate, it is assumed by us that this shipment is for official account. If such is the case, it is the first shipment of such a nature for a considerable period of time, and may be the beginning of the resumption of gold shipments to the U. S., for official account.

The equivalent of today's London silver price was 41.51¢. The price fixed by Handy and Harman for foreign silver remained unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢. In New York, we made 3 purchases of silver totaling 200,000 ounces. We purchased 25,000 ounces of silver from Canada under our regular monthly agreement.



CONFIDENTIAL

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment the following gentlemen called on Secretary Morgenthau at 11:30 this morning: Sir James Rae (Administrative Officer of the British Purchasing Mission in Canada), Mr. Pinsent (Financial Counselor of the British Embassy), Sir Owen Chalkey (Commercial Counselor of the British Embassy) and Mr. Purvis (a British industrialist at the head of the Canadian branch of Imperial Chemicals who has been selected to be the ranking officer in the New York organization of the British Purchasing Mission). Mr. Cochran was present.

Sir Owen Chalkey expressed the gratification of the group at the latest news with respect to the neutrality legislation. They were all quite happy over this. Sir Owen then showed to Secretary Morgenthau a draft of a communique which they contemplated releasing to the press, announcing the establishment in New York of the Purchasing Mission office and explaining the connection between this and the group in Canada. When the Secretary asked him when they planned to release this notice, Chalkey said they had asked approval of the British Government for the release, and hoped to issue it Monday. The Secretary remarked that while the release appeared quite in order, he thought it should be held up until after the neutrality bill had been signed by the President. When asked as to when the bill would be signed, the Secretary replied that he had not discussed this matter with the President and did not know, but believed it would be signed by Monday.

Mr. Purvis, who called today for the first time, was most appreciative of the consideration which the Secretary has been showing his British colleagues with respect to purchasing arrangements, and, for his part, desired to cooperate fully in undertaking his new duties. The Secretary asked whether they could say anything as to plans for the British and French Missions coordinating their purchasing operations in the United States. The British had no definite information on this point, but hoped that such coordination would be arranged. They realized that much harm could come to the two Missions by competitive bidding, and that prices on our market might be unduly raised.

Mr. Purvis hoped the French would at least name someone with whom he could be directly in touch for consultation in regard to purchases in the United States.

In answer to Purvis' question as to the officer with whom they should consult in Washington, the Secretary explained that he was merely "pinch hitting" for the present, but that he expected the President definitely to determine the method of liaison within the next few days. The Secretary stressed the advantage of having both the British and French officers come together to the American liaison officer so that two separate but quite similar discussions could be

- 2 -

avoided and ideas better coordinated.

The question then arose as to whether with the setting up of this Mission in the United States the British would make some purchases of American materials directly in England. He cited the case of a purchase of American motor trucks being contracted for in France, without the knowledge of officials in this country who could have told the French that the truck in question was defective. The British appreciated very highly the service that our officials could lend them in just such an instance. They said they did not want to be caught with any faulty equipment. The point was made, however, that certain purchases of American grain and foodstuffs have been contracted for in England by officials --- allegedly experts in this field. If this practice continues, the members of the group will insist that they be kept currently informed of such purchases.

This applies to raw materials, as well as foodstuffs, since they realize that the prices of finished products depend importantly upon the prices of the raw materials that enter therewith.

Sir James Rae will apparently be in Canada most of the time. Mr. Furvis, as head of the organization in New York, will keep in touch with Messrs. Chalkey and Pinsent and desires to come personally to see the American liaison officer at least once each week. The Secretary agreed to receive Mr. Furvis next Wednesday, at an hour to be communicated by Mrs. Klots to the British Embassy here, to discuss problems of interest and indicate whether the American liaison officer is yet named. The Secretary informed them of his travel plans and asked that they communicate only with Mrs. Klots and myself in his absence.

The Secretary let them know that arrangements appear to be nearing completion for France to establish banking arrangements in New York, similar to those agreed upon by the British, for the handling of funds for purchases of war materials in this country.

After we came out of the office of the Secretary, Mr. Pinsent asked me if there had been any clarification of our neutrality legislation on the point as to whether it definitely prohibits a Government entity such as the Reconstruction Finance Corporation from making loans to a belligerent Government. He had in mind particularly the question of getting advances against British owned dollar securities, lest too hurried sale thereof may depress the market. I told him that I thought the legislation as sent to the conference committee contained nothing new on this point, and that, as far as I knew, no steps had been taken to clear up this matter since the debate in which Senator Pittman talked on this question.

In his talk with me alone, Mr. Pinsent expressed a little concern about the French organization for purchasing in this country, it being his fear that there will be too many varied French Missions, with the Commercial Attaché in New York acting as a sort of secretary thereto, rather than any permanent official in this country heading the organization.

B.M.F.

IT:P:CA
CAA

November 3, 1939.

REPORT FOR SECRETARY MORGENTHAU:

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

Colt's Patent Fire Arms Manufacturing Company:

The agreement duly executed was forwarded to your office for your consideration.

An amended certificate dated October 26, 1939 and a transmitting letter dated October 27, 1939, from the War Department, were received on November 1, 1939. The certificate is amended to state that 159 guns will be procured and that there is a probability that the ultimate number of guns required may be increased to 300, all of which will be purchased under the one contract.

Consolidated Aircraft Corporation:

Nothing further has been heard from this contractor.

De Laval Steam Turbine Company:

Additional information has been received from the contractor.

The representative of the contractor was orally advised to apply to the Navy Department for a certification and he stated he would do so.

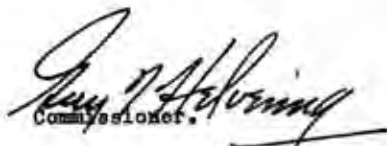
New matters developed as follows:

The Midvale Company, Nicetown, Philadelphia, Pennsylvania:

A letter from this contractor dated October 26, 1939 was delivered by hand to Appel on October 30, 1939, requesting a

- 2 -

closing agreement with respect to various facilities estimated to cost \$874,700.00 claimed to be required for a prospective contract for armor plate. The request asks that \$653,010.00 of such cost shall be allowed as chargeable to cost of the contract. The facilities include extension of a building; removal of a carpenter shop; changing location of tracks and switches; alterations of various fire, water, air, oil and drain lines; expenses of installation and fitting out of a 8,500 ton press to be leased from the Navy Department; relocation of various facilities and purchase of various machinery and installation thereof. The messenger stated that application has been made to the Navy Department for certification and he understood that the Navy Department has instructed its cost inspector at the plant to make a report. The terms of the request were not discussed.


Commissioner.

IT:P:GA
CAA

November 3, 1939.

REPORT FOR SECRETARY MORGENTHAU:

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

Celt's Patent Fire Arms Manufacturing Company:

The agreement duly executed was forwarded to your office for your consideration.

An amended certificate dated October 26, 1939 and a transmitting letter dated October 27, 1939, from the War Department, were received on November 1, 1939. The certificate is amended to state that 150 guns will be procured and that there is a probability that the ultimate number of guns required may be increased to 300, all of which will be purchased under the one contract.

Consolidated Aircraft Corporation:

Nothing further has been heard from this contractor.

De Laval Steam Turbine Company:

Additional information has been received from the contractor.

The representative of the contractor was orally advised to apply to the Navy Department for a certification and he stated he would do so.

New matters developed as follows:

The Midvale Company, Hightown, Philadelphia, Pennsylvania:

A letter from this contractor dated October 26, 1939 was delivered by hand to Appel on October 30, 1939, requesting a

- 2 -

closing agreement with respect to various facilities estimated to cost \$876,700.00 claimed to be required for a prospective contract for armor plate. The request asks that \$682,010.00 of such cost shall be allowed as chargeable to cost of the contract. The facilities include extension of a building; removal of a carpenter shop; changing location of tracks and switches; alterations of various fire, water, air, oil and drain lines; expenses of installation and fitting out of a 6,500 ton press to be leased from the Navy Department; relocation of various facilities and purchase of various machinery and installation thereof. The messenger stated that application has been made to the Navy Department for certification and he understood that the Navy Department has instructed its cost inspector at the plant to make a report. The terms of the request were not discussed.

(Signed) Guy T. Holverson

Commissioner.

FROM: MR. GASTON'S OFFICE

TO: The Secretary

Out of our request for \$39,000,000 deficiency for fiscal 1940 the Budget is allowing us only \$4,500,000, just enough for the pay and allowances of the 2,000 added men now on the rolls. This does not take care of the 2,500 more men estimated by Wessche as necessary for policing the loading of explosives under the new act. It contains nothing for new officers, planes, listening devices, gun mounts, large lighthouse tender and buoys (asked by the Navy for mine-laying use) or other equipment. They have told us we can represent these again in connection with the 1941 budget--but we will get our men right away under the new neutrality act.



100 3, 1956

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: November 3, 1939, 10 a.m.

NO.: 1928

The official statement of the tax revenues of the Reich for the second quarter of the fiscal year ending September 30, 1939 shows that 6,179 million marks in taxes was collected during this period, representing an increase of 1,546 million marks, or one third, over collections during the corresponding quarter of the present year. Total tax revenues for the first half of this fiscal year were 11,800 million marks as compared with collections of 8,304 million marks during the first half of the preceding fiscal year. These figures tend to confirm the forecast made by State Secretary Reinhardt that the normal tax yield for 1939-40 would be approximately 22 billion marks. A revised estimate made by Reinhardt since the adoption of the new war surtaxes forecasts a total tax yield of 24 billion marks for the present fiscal year. Although the war surtaxes were effective September 1st; the first date of payment for the principal taxes was not until October 18th so that revenue from this source for September was negligible.

The first installment on the tax on increased incomes, due on September 10th amounted to one million marks. Since the tax for 1939 (which applies to increases in butter during 1938 as compared with 1937) is to be paid in three equal installments

- 2 -

installments during the first year it seems probable that the total yield of this tax for the present year will approximate 300 million marks. This is the amount which the tax was originally designed to produce but subsequent increased exemptions and abatements as a result of an unusual volume of protest from the tax payers led some observers to the conclusion that the tax would yield less than half of this amount, see telegram 829, August 18, 5 p.m.

The most recent statement of the Reich's floating debt is for July and shows a net increase of 739.6 million marks during the month to a total of 10,324.8 million marks (including tax certificates). Some 781 million marks in tax certificates were issued in July bringing the total issued during the first three months in which the new finance plan was in force to 2,279 million marks. Assuming that tax certificates were issued at the same rate until their discontinuance on November 1 their total of issuance would be approximately 4.5 billion marks.

Last June, when the Reichsbank was reorganized, the previous limitation of 100 million marks on Government borrowing from the Reichsbank was removed. However, care was taken by officials and the press to give the impression that the increased borrowing facilities would not be availed of by the Government. During the month of July, despite these assurances of financial moderation on the part of the Government,

EDA

PLAIN

LONDON

Dated November 3, 1939

Received 1:02 p.m.

Secretary of State
Washington

2267, November 3.

FOR TREASURY.

1. The first step in formal procedure preparatory to the issuance of war loans was made public when a motion under the Chancellor of the Exchequer's name appeared in last night's parliamentary papers. This motion which will form the basis of a national loans bill to be introduced and passed through all its stages next week reads as follows:

"The Treasury may borrow in such manner as it thinks fit on the security of the consolidated fund:

"1. Any sums required for raising any supply granted to His Majesty for the service of the year ending March 31, 1940.

"2. ^{An} Additional sum not exceeding £250 million and,

"3. Any sums required for the repayment of any maturing securities, issued or deemed to have been issued under the war loan acts, 1914 to 1919, or any provision thereof or issued under any act of the present session for giving effect to this resolution, or of any Treasury bills

EDA - 2 - #2267, November 3, from London

bills or ways and means advances."

The resolution also provides powers to the Treasury for the purpose of carrying out any arrangements for the exchange of Government securities, to create and issue new securities and make payments to holders of securities surrendered. The financial press this morning consistently points out that this resolution indicates the preparation of the necessary statutory machinery rather than an early announcement of an actual war loan though for some time there has been discussion in the city of the possibilities of an actual announcement this month. The City Editor of the TIMES points out that "it is not clear from the resolution itself whether these sums (enumerated in paragraphs 2 and 3 of the resolution) are additional to the borrowing powers to the extent of £502 million already available in respect of the current year under the Defence Loan Act if not also to the vote of credit of £500 million obtained on the outbreak of war." But he also points out that it does not necessarily follow that the Treasury will avail itself of all its additional powers within the year to which they relate. The Government securities now callable are the one per cent Treasury bonds 1939/41 of which £100 million are outstanding, On

July

BDA - 3 - #2267, November 3 from London

July 1, 1940, £353 million of $4\frac{1}{2}$ per cent conversion loan 1940/44 will be redeemable. The announcement came too late to affect the gilt-edged market yesterday which closed firm generally but with the medium dated stocks more favored and with war loan $3\frac{1}{2}$ per cent actually down by $\frac{1}{4}$ to $91\frac{1}{2}$. This morning's stock market was quiet on the approach of a weekend with war loan quoted as low as $91\frac{3}{8}$ but closing $91\frac{5}{8}$.

2. There was little change in the rate for today's Treasury bill tender, the average being about £1. 3S. $1\frac{1}{2}$ D. as compared with £1. 3S. 8.83D. last week. Applications totalled £102,555,000 and the syndicate tenders received a 53 per cent allotment.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 3, 1939, 7 p.m.

NO.: 2655

The following is strictly confidential:

I had a talk with Paul Reynaud today, who said that a most serious problem was raised in a letter which he had received from Sir John Simon. In the letter from Simon, he insisted that with regard to the question of loans and credits to Turkey, the French and British Governments should share equally in the burdens of loans and credits for allies of France and England.

In talking with me Reynaud pointed out that Great Britain had financial resources about three times the size of those of France. He said that where Great Britain had at present less than one out of forty-five mobilized, France had one out of every eight of her population mobilized, and that where a given section of front line trenches required two British divisions to hold it, it could be held by half a French division. He mentioned that supplies for a British division were four times what is required for a French division, owing to the higher standard of living of the British troops, and that whereas a British soldier received 2 shillings a day, the pay of a French soldier was only 50 centimes - the equivalent of 1 1/10 cents. Because of the number of Frenchmen mobilized, France was not able to maintain

- 2 -

maintain her export industries, whereas the export industries of Great Britain could be maintained. Reynaud said that if there were an equal sharing of financial burdens, the finances of France would collapse at a date long before such a state was reached by Great Britain.

Reynaud said it was his belief that the clear object of Sir John Simon was to see French resources exhausted before there was serious weakening on the part of Great Britain, so that at the end of this war, Great Britain could control the situation absolutely. From the point of view of his country, Reynaud said, this situation was entirely inadmissible. He said he expected to go to London and have the matter out with the British Government shortly.

From this we went on to discussion of France's financial situation in general. He said that it had already been necessary for him to take the position that they must make revisions on many expenditures abroad which the French Ministry of Commerce had already ok'd, as the amount of such expenditures was more than double what France could possibly spend.

An obvious necessity, Reynaud said, was that huge additional purchases of planes should be made in the United States by France, it might be desirable for ~~his~~ country to make purchases to the amount of a billion dollars, in planes and accessories. He said that 44 billion francs was an overwhelming sum for France, however small a billion dollars

- 3 -

dollars might appear to the United States. In order to win the war, he said, France would have to have the planes; France would therefore have to consider immediately the problem of obtaining means of payment for purchases abroad.

Then Reynaud asked whether I would have an immediate study made on the question of increasing French exports to the United States. I said that two months ago I had had the Commercial Attaché of this mission make such a study, and has^{he} asked the French Commerce Ministry to submit to me its ideas on the question, but although I had been promised such a report daily for the past week, I had not as yet received it.

Reynaud continued that it would be a great help if French exports to the United States could be increased, but he said that in all probability there would be a great decrease in exports to the United States from France, since so many of the workmen in the export industries of France had been mobilized, and that this means alone, in any event, could not supply sufficient funds for purchases abroad. Then I asked him what other means he was thinking about, and he said although he knew it was not possible for the United States to make loans to France, he was cudgeling his brains for a solution of this problem but could not make any suggestions.

Reynaud

- 4 -

Reynaud said in addition that in his opinion there was a real danger that with the economic backing of Russia, Germany could hold out longer than France and England, even with the extension of the blockade by the Allies from the Rhine to Vladivostok in order to bring real pressure on Germany.

In view of all this he expressed the hope that the United States Government would bear in mind the problem of payments for purchases by France in the United States, although such problem would not become acute for some time. In addition he said that he would greatly appreciate any suggestions and ideas for dealing with the matter.

END OF MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Lima, Peru

NO.: 93

DATE: November 4, 1939

The numbered paragraphs which follow have reference to corresponding numbers in telegram no. 66 from the Department dated October 31, 2 p.m.:

One. Balance as of August 31 is given as follows in the Central Bank bulletin for September: gold under article 28, law 7, 538 - 6,921,479 soles; intangible gold 38,784,832; funds held abroad 1,320,593; excess reserve in Peru in checks and securities 200,000; excess reserve abroad 879,638; legal reserve abroad 2,079,988. The total of reserves and funds held abroad is 51,571,565 soles. Rediscounts to associated banks amount to 19,627,625. Loans and credits and discounts to the Treasury total 121,321,374. A total of 121,645,230 is shown for note circulation. Deposits amounted to 36,473,934. It was confidentially stated by the Manager of Banco Central that by the middle of September note circulation had increased to about 136,000,000 and that on October 28 it was 132,072,750.

Two. Import and export statistics for the period ending September 30 are the latest available. These are included

-2-

included in Economic and Trade report no. 91 of October 26, which was sent in the pouch of October 27 via air mail.

Three. American capital earnings in Peru are remitted chiefly in the form of exports of commodities. Please refer to the report of the Consulate General dated September 29, 1939 with reference to the Peruvian international balance of payments. The scarcity of dollar exchange and the high exchange rate for dollars have restricted transfers of funds to the United States. An estimate of capital movement and of the volume of transfer of interest and dividends cannot be made due to lack of sufficient accurate information to justify such an estimate. We will send you an air mail despatch containing additional background information.

Four. There are several estimates which place the back-log of exchange accumulated from purely commercial transactions at a figure as low as \$1,000,000, but on the basis of reports which have recently been received from other banks, the total is placed at about 5,000,000 by the Italian Bank. Other funds which are waiting to be transferred (the Electric Boat Company account, for example) are not included in this estimate.

DREYFUS

EA:EB

HM

PLAIN

Berlin

Dated November 4, 1939

Rec'd 6:39 p.m.

Secretary of State,
Washington.

1951, November 4, 5 p.m.

Last night's press summarizes an order issued November 3, by Minister of Economics which prohibits payments in free foreign exchange to persons or to the credit of persons who have their domicile, permanent residence, or headquarters in Great Britain, Northern Ireland, British colonies, possessions and mandated territories, Canada, Australia, Union of South Africa, New Zealand, British India and Iraq; France with colonies, protectorates and mandated territories; Egypt including Sudan.

The prohibition also applies to payments to neutral countries when it is known that the recipients are citizens of the above named countries or firms controlled by nationals or companies in these countries.

The prohibition does not apply to payments due in Germany in Reichsmarks to the German clearing office and to other clearing accounts including Aski, to the conversion office for German foreign debts and to all blocked mark accounts.

EMB London and Paris informed.

KIRK

TREASURY DEPARTMENT

200

INTER OFFICE COMMUNICATION

DATE November 4, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

not read *W*

Mr. Zuberbuhler, Acting Financial Counselor of the Argentine Embassy, called this morning at 11:00 o'clock by appointment. He told me that his Government was concerned lest there be heavy sales of British owned dollar bonds of the Argentine Government upon the American market when the British begin important war purchases here. He asked if we had planned any steps to take to avoid such a development. I remarked, and he agreed, that the sale of British securities to date had apparently been quite orderly and had caused no upsets. I added that we had many months ago looked into the question as to what we should do if a war came and the question of selling European owned dollar securities on this market arose. I let him understand that as a result of our studies we would be in a position to take such steps as might be necessary and possible toward maintaining an orderly market here in all circumstances. I hastened to express the belief, however, that the European Governments selling securities here would be so anxious themselves to avoid disturbing the market, and consequently diminishing the returns from their securities, that they would handle their operations so cautiously that little if any action on our part should be necessary.

My visitor then asked if I could confirm that the British held some fantastic amount, I think he mentioned \$1,100,000,000, of gold on earmark in Canada and the United States. I disclaimed any knowledge of gold holdings. He asked what steps we would take if Great Britain began liquidating this gold to us. I reminded him that our present monetary set-up requires us to purchase gold at \$35 per ounce in New York. I presumed, however, that any foreign country, including Great Britain, desiring to realize on its assets here would act as discreetly and as much in conformity with our own best interests as possible.

B.M.F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1939

TO Secretary Morgenthau

FROM Mr. Haas

The attached tables and chart show WPA employment at 1,901,000 persons for the week ended October 25, 1939, an increase of 3,000 persons over the preceding week, and of 113,000 persons over the figure for the last week in September.

Attachments.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

202

Week Ending	Number of Workers (In thousands)
1939	
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841
September 6	1,661
September 13	1,694
September 20	1,733
September 27	1,788
October 4	1,833
October 11	1,874
October 18	1,898
October 25	1,901

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

203

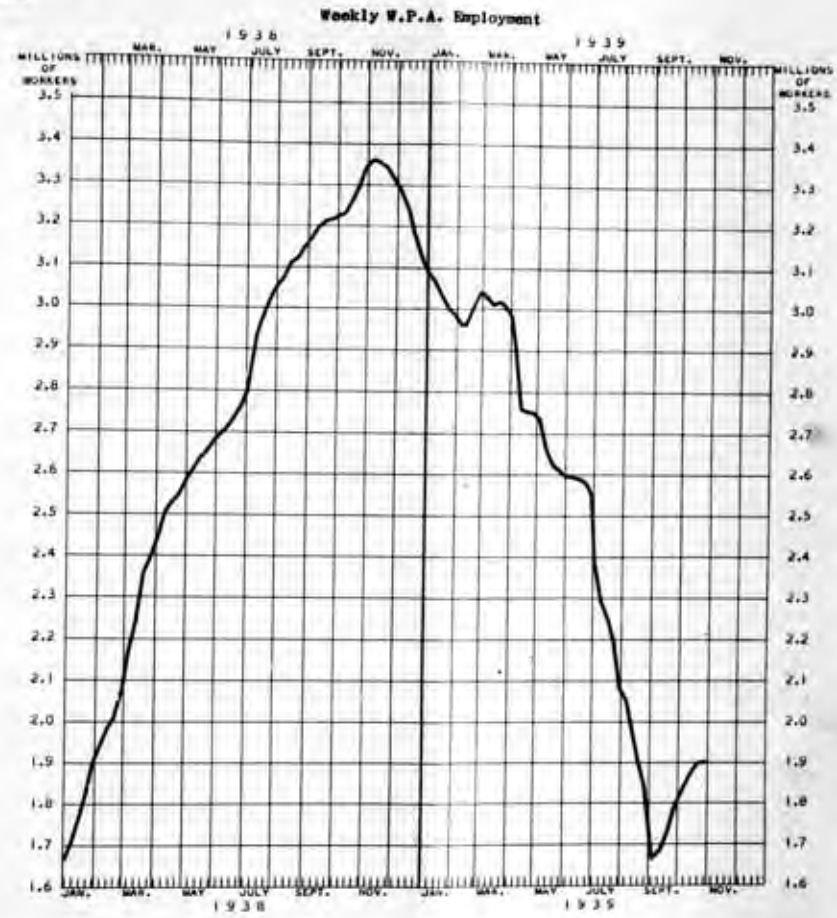
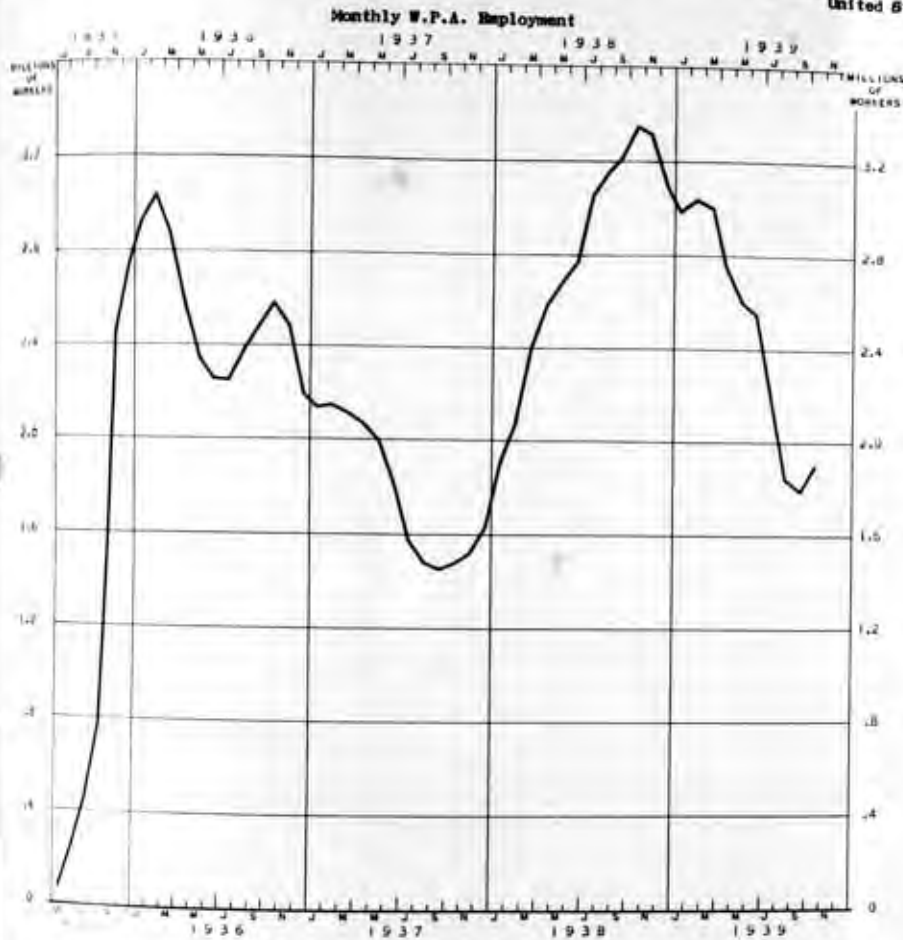
	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551
July	2,200
August	1,841
September	1,788
October	1,901

Source: Works Progress 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