

CJ

GRAY

PARIS

Dated August 21, 1939

Rec'd 3:20 p.m.

Secretary of State,
Washington.

1534, August 21, 6 p.m. (SECTION THREE).

Incidentally, we learn confidentially that the afternoon before his death Mannheim obtained \$1,000,000 from Lazard Freres under promise to remit the equivalent in sterling the following day: this would seem to indicate that his Lazard associates, at least, were not aware of his financial difficulties. Furthermore, the \$1,000,000 has not yet been traced. Similarly, he obtained from his firm in Amsterdam \$2,000,000 two days before his death for payment for certain Argentine transportation company bonds: the bonds were not delivered and the \$2,000,000 has likewise not been found.

(END SECTION THREE).

BULLITT

PEG

CJ

GRAY

PARIS

Dated August 21, 1939

Rec'd 4:20 p.m.

Secretary of State,
Washington.

1534, August 21, 6 p.m. (SECTION FOUR).

There was little business on either the exchange market or the security market today though on the latter the undertone was decidedly pessimistic under the influence of the international political tension particularly Ciano's announced interviews with the various ambassadors at Rome. Rentes were down from 65 centimes to one franc and long term issues in general were heavy. Sterling was a little more bid in Paris today and the fund gained no pounds. On the other hand the British control lost a fair amount of dollars. The premium on the forward franc is 13 and 39 centimes for one month and three months respectively. The belga and florin were unchanged and the Swiss franc a little more offered.

For the month of July the French wholesale price index dropped from 683 to 678 largely due to a seasonal decrease in foodstuffs. Retail prices rose one point to 759. The (?) index (based on 1930) rose only to 122.6 in May in comparison with 122.3 in February (and 115.3 in May, 1938)

EMB:NPL

BULLITT

CJ

GRAY

PARIS

Dated August 21, 1939

Rec'd 4:22 p.m.

Secretary of State,
Washington.

1534, August 21, 6 p.m. (SECTION FIVE).

In LE TEMPS' leading weekly financial article Germain Martin former Minister of Finance discusses the present maldistribution of gold but contributes little original or constructive thought to the question. While he considers that a system of exchange of fiscal information between governments might constitute a brake on capital movements his principal thereunder is the obvious one that as long as danger of war exists capital will seek security wherever available. He likewise quotes the Secretary to the effect that, "The best way to reduce gold imports into the United States is to assist economic recovery which would increase our (American) imports of merchandise more rapidly than our exports."

(END OF MESSAGE)

BULLITT

NPL:EMB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: August 21, 1939, 1 p.m.

NO.: 846

My 799, August 15, 5 p.m.

This morning's press announces the conclusion on August 19 after lengthy negotiations of a commercial and credit agreement between Germany and Russia which provides for "a widening of reciprocal commodity traffic" and for a credit of 200,000,000 marks to Russia. It is also stated that Russia will deliver goods to Germany in the next two years to a value of 180,000,000 marks.

In commenting on the agreement the MONTAGS POST declares that the declining Russian-German trade of recent years does not correspond with the "natural and economic possibilities which are present in both countries for an active trade" and that the "newly concluded agreement will bring the trade turnover to suitable level" through the exchange of Russian raw materials for German industrial goods. It is further observed that the conclusion of this agreement continues the German commercial policy of "striving for close economic cooperation with all countries."

If the press information given above is correct, it will be seen that in the next two years the annual Russian deliveries to Germany will average 90 million marks. This total is

less

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less than half of what had been expected by an authoritative German source early this month; reference, my telegram of August 2, No. 724. During the first half of this year German imports from Russia were only 11 million marks, and during 1938 they were only 53 million marks; therefore the new agreement apparently looks to a considerable expansion over the present low level of trading. As to the credit terms, we do not as yet have any information.

It is requested that the Treasury be informed of the foregoing.

KIRK.

EA:LWW

171-0

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 21, 1939, 3 p.m.

NO.: 1531

FOR THE TREASURY.

On Sunday Reynaud and his Chef de Cabinet Palewsky lunched with us alone. Reynaud again expressed his anxiety over the future of the pound (reference: telegram No. 1488 of August 11 from the Embassy). He said that the British control had again lost over a billion francs on one of the bad days last week. He is of the opinion that the control will be able to hold the present level of sterling "for the period of the war crisis"; however, he is convinced that in October it will be necessary for the British to take serious and far-reaching measures along his own lines if the pound is to be "saved" and if the British are to maintain a free economy system. Specifically, Reynaud said that Great Britain would have to increase taxes and drastically reduce public works relief and similar expenditures if they are to avoid inflation and if they restore confidence in the pound. He spoke scornfully of the "half measures" which the British have adopted since the beginning of this year, and he questioned the efficacy of the attempts to discourage capital flight by the steps they have taken so far.

Mo

- 2 -

We asked Reynaud about the Mendelssohn situation and about the death of Mannheimer, and referring to Claude Farrere's ^{famous novel} ~~novel~~ "l'homme qui assassina" he quickly replied "I am the man who killed him". In explanation he said that he had taken advantage of the inordinate vanity of Mannheimer to persuade him to carry out his recent operations for the French Treasury, and particularly to have the bill issue made renewable up to six years. Reynaud said that whereas Mannheimer had relied in previous issues upon the existence in the Netherlands of substantial sums of French flight capital to take up the tranches floated there as a result of his, Reynaud's, successful financial policies and French capital repatriation, there no longer were present such investment sources. Reynaud had received categorical assurances on two occasions from Mannheimer that the recent issues had been successfully disposed of, and that the issues had been taken firm.

Reynaud expressed confidence that the Mendelssohn suspension would not have much effect given "the existing favorable market for French Government paper", but the danger of political repercussion in France was admitted by Palewski. Incidentally, Reynaud added that the partners of Mannheimer were poor unfortunate people who, just within the last three months, had been persuaded to join the firm; it is Reynaud's belief that debts for the most part will make up Mannheimer's personal estate.

Reynaud

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Reynaud gave Mannheimer credit for having rendered service to France in two crises - in defense of the Poincare franc, and Reynaud's own franc. Mannheimer's disappearance, he said, would seem to do away with the last source of international borrowing for France.

Reynaud hopes for further suspension of quotas to assist him in his struggle against price rise. However, as regards ~~the~~ many of the remaining 260 industrial items which are still under quota limitations, he admitted that he would have to move slowly. Agricultural prices will be his next point of "attack"; he planned to make a statement in this regard today. He said that they continue to have highly satisfactory subscriptions to the armament bonds, which subscriptions still average daily more than a hundred million francs.

He told us that the amount of the credit extended to Poland for purchases in France was for 600 million francs; the agreement covering this credit was signed Friday.

Reynaud is one of those people who are of the opinion that this autumn war will come; he thinks that it may begin shortly after the meeting at Nuremburg (which begins on September 2) - he reasons that this will be the time when snow in the Alps will impede a French advance into Italy but the rains in Poland, which make impassable the routes for mechanized units, will not yet have begun.

END OF MESSAGE.

EA:LWW

BULLITT.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Berlin, Germany

DATE: August 21, 1939, 6 p.m.

NO.: 365

In the August 19 issue of the NEW YORK TIMES there is a story by Tolischus which is most interesting, with regard to the failure of the plan for tax prepayment certificates. It is the belief of the Department that a special report on this subject would be useful, indicating the development of discount on these certificates and whether rediscount privileges are extended and are being used. The report should also state what the future prospects are for further use of this method of tax prepayment certificates, and if the certificates are to be curtailed, your best judgment as to what substitute methods the German Government might use.

WELLES

Acting (HF)

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORKDATE August 22, 1939.

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

Mr. Hawker called at 11:15 today expressing their thanks for the increased gold order given them over night; they greatly appreciated the gesture. I replied that I would convey the message to Washington. There was a change in the situation today in this respect, that the public's eye, on the Continent, instead of being riveted also on the currency situation as heretofore, had now turned to the political side of the question entirely. As a result of the proposed German-Russian treaty, they were now afraid of war and had turned to the dollar and away from gold. As a result, today's South African gold in the market had satisfied the greatly reduced demand on the part of the public; on the other hand, that for dollars had been terrific and he had so far had to sell \$51,000,000 spot and \$4,000,000 outright for forward delivery in addition to \$22,000,000 swaps.

The only change in quotations in foreign exchanges had been that for the belga which had weakened substantially due to a sudden flight of capital from Brussels to New York via London. This had, of course, added to the troubles of the English.

There was a great deal of speculation going on as to what this new Russo-German non-aggression pact really meant. No definite news was available at the moment but at any rate it looked like a very big diplomatic defeat for England. It seemed doubtful to Hawker whether the Chamberlain government would stand the shock if Germany

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE August 22, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

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actually concluded this pact with Russia. Of the latter he thought there could be little doubt because it did not seem thinkable that Hitler would make an announcement of the sort issued last night unless he had good grounds to make it, otherwise he would be left high and dry if it did not finally materialize.

People in London were very depressed today. They feared the worst although some thought that this latest development might mean no war in the near future. Hawker, himself, could not see it that way at all.

LWK:KW

CJ

GRAY

PARIS

Dated August 22, 1939

Rec'd 2:39 p.m.

Secretary of State,
Washington.

1540, August 22, 4 p.m.

FOR THE TREASURY.

The Paris markets today were completely dominated by the shock of the news of the Russo-German non-aggression pact and rapid development of the international political crisis. In fairly active trading the pound was under extremely heavy pressure from the dollar both spot and forward. The fund gained a little sterling and the forward franc was very much bid, the premium advancing to 20 centimes and 50 centimes for one month and three months respectively. The Swiss franc and the florin were somewhat erratic and the latter a little more offered. The National Bank of Belgium dropped the belga rate three per mill from 6.39 to 6.40. The security market was very heavy, down three to five per cent at the opening. Rentes closed one franc down.

(END SECTION ONE).

BULLITT

CSB

110-B

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM No. 1540
OF AUGUST 22, 1939, FROM THE AMERICAN EMBASSY, PARIS.

The Bank of France Governor, Fournier, who is one of the few remaining optimists here, at lunch today told us that he was still hopeful that it would be possible to avoid the catastrophe of war; however he had no idea as to what solution might be used. If war should be avoided, he said, this autumn the future of the pound will present a problem. He is of the opinion, as is Reynaud, that it will be necessary for the British to take drastic steps to "put their house in order" by raising taxes and reducing expenditures for non-armament purposes. He thinks that even so the pound is somewhat over-valued and said there is an increase in the British adverse balance of payments on current account. He remarked, with a smile, that "if sterling is permitted to fall somewhat it remains to be seen what you will do with the dollar"; he added that he had a feeling that the United States would not do anything for a half a year, at least. I asked Fournier what France would do with the franc if there should be a drop in the pound and if the present advantage of France over world prices were thus lost. In answer he said that the franc was not tied to the pound, and that the circumstances existing at the time would entirely determine procedure.

It is Fournier's opinion that the financial situation of Germany is serious and that a crash must come in the long run; however, he said it is difficult to estimate the

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timing thereof. He said that the Nazis can keep the ball rolling for another six months or a year, by one device or another.

As for the Mendelssohn failure, Fournier made light of its effects. He said that the pressure of more important events here in Europe would soon cause the affair to be forgotten.

Fournier assured us, incidentally, that he strongly desires to continue the close cooperation and frank and cordial relations existing between the United States and the Bank of France heretofore.

Confidential information has come to us that the Bank of Indo-China is one of the main sellers of sterling, and is converting into dollars large pound holdings for some of its leading clients.

END OF MESSAGE.

BULLITT.

EA:LWV

CJ

PLAIN

LONDON

Dated August 22, 1939

Rec'd 3:48 p.m.

Secretary of State,
Washington.

RUSH.

1213, August 22, 9 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The City was completely flabbergasted by the announcement of Ribbentrop's impending visit to Moscow to sign a Russo-German non-aggression pact. Although apprehension has been gradually mounting during the past month the fact that an acute crisis had been fully anticipated had served to preserve a measure of confidence in the City which had also been augmented by the inspired reports of British preparedness: war was regarded as a definite possibility but a firm stand was seen as the means of avoiding war. Therefore the initial reaction in the City to last night's news from Berlin and Moscow was unrelieved pessimism. The London Stock Exchange immediately marked all prices down and jobbers resorted to their usual crisis tactics of widening the spread between their buying and selling prices to such an extent as to make

make

-2- #1213, August 22, 9 p.m., from London

make trading unattractive. Consequently the turnover was small. British Government securities were particularly weak, 3 1/2 percent war loan for example which closed last night at 89 3/4 was initially quoted as low as 86 and closed 88 1/2. Such business as there was mostly took place at around 87 1/2 - 3/4. This compares with the "Munich" low of 90. But it will be recalled that at that time the Stock Exchange Committee, at the instigation of the British monetary authorities, imposed minimum prices. However, the Treasury and Bank of England, for political as well as financial reasons, are reluctant to take this step again until the situation absolutely requires it.

The demand for both spot and forward dollars has been very large and the British fund has been virtually the only seller. It continues to supply one month dollars at 3/4 and three months at 2 1/4 but is indirectly scrutinizing and rationing the supply. The exchange brokers at the instigation of the British authorities are exercising particular care that a required forward transaction is for bona fide commercial purposes and the amount, name and standing of the financial institution is being taken into account. Large dealings are hard to effect and delay often results of half an hour or more as a further discouraging

-3- #1213, August 22, 9 p.m., from London

discouraging influence. The supplying of spot dollars remains unaffected.

At gold fixing 140 bars were initially offered at 148s 7d but there were no takers. The price was then dropped 1/2d and 152 bars were sold of which 31 were married the market supplying all. Nervousness on the part of hoarders and arbitrageurs is responsible for this volte-face; recently gold has been mainly supplied by the British fund and buyers have been rationed. (END SECTION ONE).

KENNEDY

HPD

PARAPHRASE OF SECTION 2.

Sir Frederick Phillips told me that it would be impossible to take a view on financial developments, since there was insufficient reliable factual information on the international situation on which to go. It was to be expected, therefore, that London should have a severe shock this morning. It was also to be expected that there should be a large drain on British gold reserves. I have the impression, from the tenor of his conversation and from other indications, that, at least for the rest of this week, they will hold hard.

EA:MSG

OFFICE CORRESPONDENCE

DATE August 25, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Knoke

I called Mr. Hawker at 12:20 today. They had sold so far \$60,000,000. The pressure was terrific. New York had been big sellers of sterling this afternoon; they had also been active in switches, selling spot and buying forward dollars.

The interesting thing today was a measure of weakness in the French franc. The pressure was not very big but nevertheless it was a complete reversal of the previous tendency.

Gold was being dishoarded by the Continent. He had bought some today. It probably would be difficult fixing tomorrow because the arbitrageurs were not working at the present price of 148s 6 1/2d, which was profitable to them only if they could eliminate war risk insurance and that, of course, they were not willing to do under prevailing circumstances.

The belga was possibly a trifle better.

I referred to his cable of this morning advising that they had given us \$35,000,000 gold in London. Would he please see whether he could arrange shipment of \$15,000,000 of this gold on the Nieuw Amsterdam from Southampton on August 25 and also try to get another \$5,000,000 on the American Banker on the same date? He replied that the gold was already packed and promised that he would do as requested. He apologized for having to put so much gold into us but he just couldn't keep up with the pressure; as a matter of fact he was not keeping up. Hawker referred to his cable advising of the shipment of \$12,000,000 of gold from Canada. I replied that we had received the cable and had also heard from Canada over the telephone.

LWK:KW

FEDERAL RESERVE BANK
OF NEW YORKDATE August 24, 1939.

OFFICE CORRESPONDENCE

TO: CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KrokeBANK OF ENGLAND.

I called Mr. Hawker at 12:20 today. Today's sales now totaled \$75,000,000, he said, and were still going strong. Sterling was weak against all currencies, except possibly the Canadian dollar which was also weakening in the London market. The demand for dollars was terrific. Everybody was depressed and very anxious about the future but prepared for the worst. Futures were quoted in London at 2 3/4 for 3 months and 2 1/4 for one month. The trouble which the New York banks now were having in placing forward sterling even for commercial business was due to the fact that they had gone in very heavily before, possibly on speculative operations, and that the domestic banks in London now had reached the limit of their lines with New York banks.

Dishoarding of gold continued. The price was now down to 148s 4 1/2d, equivalent to \$34.7290, or at 3 1/2d discount with the New York rate. Gold coins were also weakening. On the other hand the demand for French bank notes was increasing, probably due to the mobilisation in France and the desire on the part of those called to the colors to leave their families with cash.

Money in London was tightening, day to day rates on deposits now being 2% (against 7/8% last week). The 1, 2 and 3 months rates had not yet been fixed.

I stated that the President Roosevelt, scheduled to sail to New York from Southampton on September 1 might now sail on

FEDERAL RESERVE BANK
OF NEW YORK

DATE August 24, 1939. 79

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

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August 27, if its call at Hamburg, as now planned, was cancelled. If that should happen, could they arrange to ship the \$15,000,000 in gold which we still have there; was that physically possible? Hawker answered, "By all means, without any doubt at all." He was giving us today, he continued, the balance of our gold order, about \$8,000,000; would we want that shipped also? I answered, "Yes". They would then put \$23,000,000 on the President Roosevelt. He would call me on the phone a little later in the day.

Mr. Hawker called me at 2:20 p.m. to find out how things were going here. I reported on our stock market and told him that in the foreign exchange market business was very quiet; so far we had bought £90,000 only, and the bulk of that was for Chinese account. He repeated what he had said in his earlier call, that he would telephone me again tonight, either at home or at the bank. If, in the meantime, activity in sterling in the New York market should increase and we be called upon to buy large amounts, would I please call him at the bank, which I promised.

(I sense in this second call considerable nervousness on their part as to the future sterling rate and that they may well now be considering how much longer they can hold the rate at the present level.)

There were no news. The Bremen was continuing her trip to New York and the Europa was scheduled to arrive at Southampton on Monday.

LWK:KW

100
August 22, 1939

MEMORANDUM FOR THE FILES

The second conference held in the office of the Under Secretary of State authorized by the President as an interdepartmental committee making preparation for any emergency which might arise of conditions abroad. Present at the meeting were the following: Under Secretary Welles, Assistant Secretary Moffatt, Berle, Messersmith, Acting Secretary of War Louis Johnson, Acting Secretary of the Navy Charles Edison, and Under Secretary of Treasury Hanes, Assistant Secretary of Treasury Gaston, Messrs. Bell and Cairns of the Treasury, also staff officers of the Army and Navy.

A permanent subcommittee of this main committee under the chairmanship of Assistant Secretary of State Berle and representative of Treasury Mr. Gaston, representative of Justice to be named, and a representative from the State and War Department. The subcommittee was instructed to proceed further with getting all papers together from every department that would be necessary in case of difficulty abroad. A meeting of that subcommittee will be held on Wednesday, August 23rd, at 2:30 in the office of Mr. Berle.

Another subcommittee to work on the financial affairs under the leadership of the Treasury Department with a representative from State, Justice, and the Federal Reserve Board; and this first meeting will be held on Wednesday morning at 10 A. M.

The Aviation Section is being handled by Mr. Burke of the State Department under Mr. Berle, and the first meeting will be held at 10 o'clock Wednesday, August 23rd, consisting of Burke, Mason of the CAA, Moulton of Justice, and a representative from the Coast Guard.

The final meeting of the whole committee will be held Thursday afternoon at 3 o'clock in the office of the Under Secretary of State, at which time the final draft form will be ready for the President on Friday morning, August 25th.

JWH

For Secy

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August 22, 1939

MEMORANDUM FOR THE PRESIDENT

Referring to your memorandum of August 11, 1939, we have received a report on Mr. James Elliott Heath of Norfolk, Virginia, who was recommended by Governor Price for Collector of Customs at Norfolk, Virginia.

I quote the conclusions and recommendation of Special Agent Alfred E. Waters, Jr., assigned to make this investigation by the Chief of the Intelligence Unit:

"This investigation has disclosed that Mr. Heath has a good education, is considered scholarly by his associates, bears an excellent reputation for honesty, reliability and integrity, and, according to all individuals interviewed, is the outstanding attorney in Norfolk, if not the entire State of Virginia.

"Mr. Heath has apparently lived within his means, met his obligations as contracted and has no criminal record.

"Mr. Heath is active in the practice of his profession, is in good physical condition, and it is believed that he is fully capable, mentally and physically, of performing, in a satisfactory manner, the duties required of him in the position which he seeks.

"It is therefore recommended that favorable consideration be given James Elliott Heath, Norfolk, Virginia, for appointment to the position of Collector of Customs."

I have also asked for a report on Mr. Allyn Jones of Newport News, Virginia, recommended by Governor Price and Mr. R. Walton Moore for Collector of Internal Revenue at Richmond, Virginia. This report is expected in a few days, at which time I shall forward to you.

1-234
W. S. ...
Acting Secretary

JWH:ce

MEASURES TO PROTECT VARIOUS
MARKETS IN EVENT OF WAR IN EUROPE

August 23, 1939.
10:00 a.m.

Present: Mr. Hanes (presiding)
Mr. Gaston
Mr. Bell
Mr. Cairns
Mr. Glasser
Mr. Feis
Mr. Townsend (Justice)
Mr. Woodlief Thomas (Federal Reserve)

Hanes: After that first meeting that we had over in the State Department, according to our agreement with Sumner Welles, we sent the President a message as follows:

"At a meeting called today by Under Secretary Welles at which representatives of State, Treasury, War, Navy and Justice Departments were present, it was suggested that Treasury head an informal committee to be composed of representatives of Federal Reserve Board, State and Justice, possibly to be augmented later by representatives of Securities Exchange Commission and Commerce, to study and complete whatever plans are necessary to exercise, in case of emergency, control over transactions in foreign exchange, transfers of credit, export of coins and currency, sale of securities in the American market by foreign holders, other matters arising under section 3 of the Neutrality Act, and any other related matters which might arise.

"I feel I should have your approval before proceeding to create such a committee."

In answer to that we of course had the reply by the President approving the formation of this committee, and at the meeting yesterday at the State Department we decided to hold the first preliminary meeting of this sub-committee to consider these matters and to go over the details - go over in detail all the papers that have been prepared and which were approved by the President at the time of the last difficulty in the spring.

And I'll ask Huntington Cairns if he'll start and let us go along slowly and go over each one of these documents and give us the background of all of them. And then if there are any suggestions here, we'll iron them out in a moment.

Cairns: Suppose I summarize the papers first, and then if there are any questions, we can proceed to details.

Wanes: All right.

Cairns: Under the authority of Section 5-B of the Trading-with-the-Enemy Act, that is, the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, the Emergency Banking Act, the President has the authority during time of war or any other period of national emergency to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe by means of licenses or otherwise, transactions in foreign exchange, transfers of credit between or payments by banking institutions, and the export, hoarding, melting or earmarking of coin or bullion or currency.

An Executive Order has been prepared, the effect of which would be to require licenses for (a) transactions in foreign exchange; (b) transfers of credit between banking institutions within the United States and banking institutions outside the United States; (c) the export from the United States of any currency or coin or bullion; and (d) transfers of credit between any banking institutions within the United States and payments by any banking institutions within the United States in which any foreign country or a national thereof has any interest.

The Executive Order would also require detailed reports of foreign property interests in the United States.

On January 15, 1934, the President issued Executive Order No. 6560, which provided for limited foreign exchange control. On November 12, 1934, regulations were issued by the Secretary of the Treasury under such Executive Order, which regulations had the effect of lifting the restrictions imposed by such Order. The Executive Order which has now been

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drafted amends the Executive Order of January 15, 1934, so as to tighten the restrictions imposed therein. There has also been drafted an Order revoking the regulations of November 12, 1934.

The following papers implementing the Executive Order have also been prepared:

1. Regulations which set up a system for the licensing of foreign exchange transactions, et cetera, and which also give detailed instructions with respect to the filing of reports of foreign property interests in the United States.
2. Telegrams to the Federal Reserve Banks, Collectors of Customs, and the Mints and assay offices, and a letter to the Postmaster General, advising the addressees of the issuance of the above-indicated orders and regulations and explaining the duties to be performed by the addressees in carrying out such orders and regulations.
3. The following report forms:
 - a. T.F.R. 100. This is a basic report form to be filed by Americans indicating the holding of property for foreigners. The report form requires a statement by the reporter of the amounts and detailed description of each of the various types of property being held.
 - b. T.F.R. 100-A. This is a similar report form to be filed by the person owning the property.
 - c. T.F.R. 200. This report form is to be filed by certain limited groups of banks, corporations, et cetera, indicating that they do not hold any property subject to report.
 - d. T.F.R. 300. This report form indicates changes in the status of reportable property.
4. The following forms implementing the licensing provisions:
 - a. T.F.E. 1. Application form indicating the

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purpose and transaction for which the license is desired.

- b. T.F.E.L. 1. License form describing and authorizing the transaction.
- c. T.F.E.R. 1. Report form to be filed by the licensee indicating that the transaction has been consummated.

5. Press release describing the above-indicated orders and regulations briefly.

Hanes: Now, do you - is that - are all these forms, under the law, necessary, is that - that must be done?

Cairns: Well

Gaston: Johnny, it seems to me that this - as nearly as I understand this plan, that it provides the possibility for two different lines of procedure, one of which might be called the gradual approach and the other the immediate approach. In one course of action what you would probably do is first simply to revoke the Treasury regulations of November, 1934,

Cairns: Well, January - oh yes, November.

Gaston: ... of November, 1934, which were based on the Executive Order of January, 1934. The Executive Order of January, 1934, allowed for transactions in foreign exchange to carry out ordinary commercial transactions, providing funds for travelers, and fulfilling old contracts, but that Executive Order provided that the Secretary of the Treasury by regulation might revoke this general authorization for commercial transactions, etc. The Order of November, 1934 - the Treasury regulation, rather, of November, 1934, issued a general license for all sorts of exchange transactions. Now

Fels: Will you excuse me? May I get my office? I've just forgotten that I had an engagement. Herbert, excuse my interruption.

Gaston: An Order - in the most

Fels: Go ahead.

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Gaston: In the most gradual form of approach, a Treasury regulation could be issued which simply revoked the Treasury regulations of November, 1934, which would put us back into the situation created by the Executive Order of January, 1934, which required the license of all foreign exchange transactions except the normal commercial, travelers, and old contracts.

Cairns: We have prepared such an Executive Order.

Gaston: Such a Treasury regulation has been prepared, so that all Then the next step would be, if we wish to do so, to issue another Treasury regulation taking advantage of the power given to the Secretary in the Executive Order to revoke the privilege of normal commercial transactions without license. That could be done next.

Now then, if the situation then seemed to be out of hand, if there were phases that were not being covered, if things were occurring that we didn't want to occur, we could then take the drastic step of the new Executive Order providing for all these things that Mr. Cairns has outlined there in his summary.

That, as I say, would be the gradual approach to the problem. The other line of approach would be almost immediately to issue this new Executive Order clamping on a very stringent exchange and property control, and then to modify that by regulation so far as it seemed expedient and necessary to do so.

Hanes: My point here - the reason I was asking the question was, those things - I don't know whether they are or not; they sound terribly drastic. If we're not going into the war as a belligerent ourselves, it sounds to me like a terribly drastic program for us to go out on and embark upon right away.

Townsend: Well, that Executive Order - it's the same one?

Cairns: Yes, that's the one.

Townsend: That Executive Order, I think, goes about the full length that we felt the President could go. It was prepared with a view that it would be used if the emergency was such as demanded it.

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- Hanes: That would be - that would mean if we were engaged in the war ourselves, I would assume.
- Townsend: Not necessarily.
- Gaston: Not necessarily.
- Townsend: Not necessarily, Mr. Hanes. The idea behind it was that it might be in cooperation with foreign countries that would seize securities held over there - American securities - and they might not want them dumped on the market over here, but would want them to be gradually liquidated. And the idea was to control the Exchange so as to enable those securities to be gradually liquidated rather than thrust upon the market immediately.
- Gaston: Wouldn't there be
- Townsend: That was mainly the idea behind it.
- Cairns: Yes.
- Gaston: Wouldn't there be another phase to it? If the nationals of some particular foreign country or countries should attempt a wrecking operation in the United States, should they deliberately undertake to disorganize our economy, or because of panic conditions should take such steps as would tend to disorganize our economy, it might be necessary to control their property and securities.
- Townsend: Yes.
- Thomas: The degree to which this would be drastic would depend upon how freely the licenses were granted. So far as I can see, this primarily calls for reports, basic information. Isn't that right? It might actually
- Gaston: That's correct, yes.
- Cairns: That's right.
- Thomas: You might not actually enter into anything
- Townsend: It could be made very rigid by regulations or it could be made rather loosely fitting.

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- Thomas: Might be simply a matter of getting reports.
- Townsend: The idea was that it might be found necessary, if war broke out in Europe, to protect the American exchange market against sudden flooding either from holders in Europe or from people over here: probably people who wanted - who felt - who had an interest in the countries at war and would want to get their securities into cash, either to hide it away from their home country or to get - or to send it over there. Anyway, the idea was to keep it from being a sudden flood of the market with securities. The extent to which it would have to be made rigid or lax would depend, of course, upon the activities on the stock market.
- Cairns: The Secretary wanted to know how much power he had, what was the furthest limit.
- Hanes: Yes.
- Cairns: This document discloses that. And there is an opinion of the Attorney General approving the legality of this Executive Order. Any action less than this Executive Order would, of course, also be legal.
- Townsend: Yes.
- Hanes: Was that paper - was that particular Order submitted to the President last spring?
- Cairns: Yes. I have a statement from the President which I might read:
- "Memorandum for the Secretary of the Treasury - April 18, 1939: This, I take it, is the Order which will be kept in your safe ready to be signed at any time. Please, however, read the opinion of the Attorney General." Initialled "F.D.R."
- Townsend: As suggested just a moment ago, even if this Order were signed in its drastic form, the rigidity of it could be modified considerably by Treasury regulations - by Treasury action probably more than regulations; that is, in granting the licenses. Isn't that true?

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Cairns: Yes, that's true.

Thomas: In the 1933

Feis: Could I

Thomas: Go ahead.

Feis: Could I ask you to repeat that first page or so of summary description of just what was covered in these Orders, and then could I ask you - later on in your memorandum the word "authorize" comes in and I didn't quite get its bearing.

I want to say, Mr. Hanes, that as far as I know - I want to say that these - the subject of these Orders naturally affects the commerce of the United States; they affect the foreign relations of the United States, affecting as they do the property of foreign nationals, and therefore indirectly affect the position of American investments abroad. As far as I know - I may be wrong - these particular - I'll be interested to hear from Mr. Cairns - this particular set of Orders the State Department has never been consulted on. Am I wrong on that?

Cairns: I understood that Mr. Berle had a copy of this Executive Order.

Feis: You mean within the last few days?

Cairns: No, he's had a copy for some time. Isn't that your (Gaston) understanding?

Gaston: Well, my understanding is - when we talked with Berle - I think it was on Friday, wasn't it?

Cairns: Or Monday.

Gaston: Or Monday - I'm not certain - he said yes, he was familiar with that basic Order, that he had had a copy. How recently, I don't know.

Feis: I mean at the time of their formulation and submission to the White House.

Gaston: That I don't

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- Feis: As far as I know, the Department wasn't consulted on it.
- Cairns: I only know Mr. Berle's statement. I didn't know whether the State Department had been consulted, but Mr. Berle stated he had a copy.
- Feis: I imagine it was given to him
- Hanes: Herbert, weren't you in these conferences?
- Feis: I was at two conferences. I was the State Department representative in those conferences. As far as I know, no one in the Department was told as to how they were developed into subsequent plans or Orders. Now, I say that subject to correction.
- Hanes: Yes.
- Cairns: I suggest you talk to Mr. Berle about it, because he stated that he had a copy, and he hasn't received a copy within the last few days, because it's been locked in the safe and no one has had a copy. So if he received it, he must have received it, I should think, about the time it was prepared.
- Suppose I hand you this.
- Feis: would you mind my looking it over? I find it hard to judge just what its scope is.
- Hanes: We haven't got a duplicate copy there? I've tried to make notes here, but I got behind you.
- (Cairns hands Hanes duplicate copy)
- Cairns: Sorry I haven't a copy for everyone.
- Hanes: You (Gaston) can look on this if you want to.
- Gaston: I've looked it over pretty carefully. Just generally familiar with the idea.
- Cairns: If you want to see any of the original papers, Mr. Feis, I have them here.
- Hanes: Huntington, this first "(a) transactions in foreign

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exchange" - does that mean each individual transaction in foreign exchange?

Cairns: All transactions....

Hanes: ... have to be approved and licensed, huh?

Glasser: No, general - that is, you could grant licenses for a certain type of transaction. It isn't necessary that every transaction - you might say, for instance, that all commercial transactions between two countries

Hanes: That's what I meant. It said "licenses for transactions." I just wondered if that's each specific transaction.

Cairns: It could take either form.

Hanes: In other words, you leave that open for the Treasury regulations.

Cairns: But the Order prohibits, except under license, every transaction in foreign exchange.

Hanes: I see.

Bell: In other words, Johnny, if this Order goes into effect, it freezes everything, and then you "unlax" as the Secretary issues regulations.

Thomas: Is this Order more drastic than the one in 1933?

Cairns: Yes.

Feis: Oh, much.

Gaston: Oh yes, it covers a much wider field.

Townsend: It covers one field especially that was not covered by that, and that is the reporting of the holding of ...

Thomas: ... of property.

Townsend: ... of property for aliens or alien countries.

Thomas: And it covers all foreign exchange transactions?

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- Glasser: An effort has been made to include every foreign exchange transaction. If one could be carried out in violation of the Order, then it's the fault of the Order; but it's an attempt to include everything.
- Thomas: But there were a lot of things reported in '33.
- Cairns: The Executive Order of January, 1934, expressly exempted three types of transactions: normal commercial or business requirements; reasonable traveling and other personal requirements; and the fulfillment of legally enforceable obligations incurred prior to March 9, 1933.
- Thomas: But for a short time in '33 weren't there - there was quite an elaborate reporting system, some sort of control device.
- Cairns: I'm not familiar with that.
- Townsend: I don't think that Order
- Fels: Could I see F.T.E.L. 1?
- Glasser: Was that in connection with foreign exchange or with the request for gold movements?
- Thomas: It was my understanding it was in connection with foreign exchange. Fred Kent had it in the Federal Reserve Bank there at New York.
- Bell: I think that's right. I think Mr. Kent is the fellow I'm trying to think of.
- Thomas: Got a tremendous amount of reports from all foreign exchange dealers; went along for several months.
- Gaston: Wasn't that, Mr. Thomas, incidental to the gold transactions?
- Thomas: Yes.
- Gaston: I think the thing was handled through the control over gold.
- Thomas: It was through the control over gold, but it was really all foreign exchange transactions.

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- Townsend: This goes further and requires reports from property holders, whether there is any foreign exchange involved or not. But it's necessary to have property located in order to know whether there might be
- Thomas: But so far as current reports and control devices are concerned, it might be very similar to what was attempted at that time, and as I understand it, at that time actually no control was exercised; the reports were obtained, but no attempt was made to control the foreign exchange transactions or to restrict them in any way. Is that your (Bell) understanding?
- Bell: I think that's correct, yes.
- Townsend: If I may say this, Mr. Hanes. As I understood it, at the time this Order was drafted it was the idea of the President that he wanted to know just how far could be gone; he wanted an Order going that far, not with the idea that it would be used unless the emergency became so great that it was necessary to use that; that other methods would be used, as far as possible. Wasn't that right, Mr. Cairns?
- Cairns: I don't know that it was definitely decided which approach would be taken.
- Townsend: That was the understanding I had from Mr. Foley.
- Cairns: I do know the President and the Secretary wanted to know the limits of their powers.
- Townsend: That's true, they wanted to know the limits, in case the emergency was such that they had to go the limit.
- Cairns: I'm not aware that any particular plan was agreed upon.
- Townsend: No, I think no particular plan was agreed upon.
- Hanes: The point comes now - what this committee has got to make, - as I understand the procedure, this committee has got to make a recommendation to the sub-committee of this committee of the whole, and

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decide on the type of regulation we're going to recommend to the President to start with in the case of a war breaking out which we will certainly not be a party to at the outset, at any rate - what type of regulation we're going to recommend to that sub-committee, and that sub-committee in turn to the main committee, which is going to report to the President on Friday. Is that your understanding, Herbert?

Gaston: Yes.

Hanes: It seems to me our job here is to explore the situation and find out what type of Order - are we going to go the whole hog at the outset or are we going to recommend some regulation which would accomplish the main objective which we are seeking, and that is for the protection of our own best interests - markets, and so forth.

Gaston: The minimum step envisaged here in all these documents is a simple Treasury regulation revoking the Treasury regulation of November, 1934. The situation then would be that transactions in foreign exchange could be carried on without license for the purpose of financing ordinary commercial transactions and needed funds for travelers, but if there were any attempt to transfer capital funds it would require a special license.

Townsend: It seems to me that the plan that might be the most advisable would be to take that step first, to revoke the Treasury regulations in effect, revoke them by a new regulation. If that accomplishes the desired end, there would be no need to go further. If it didn't, then the second step would be new regulations by the Treasury under the old Order, which I think could be made drastic enough. If that succeeded in bringing about the desired results, we wouldn't have to go any further. But if the conditions got still worse, as a last resort it might be necessary to issue an Executive Order somewhat similar to this one.

Gaston: That first step, it seems to me, would entail rather complete supervision of all foreign exchange transactions. We would have to pass on the question of whether this particular transaction which is presented to us is a normal commercial transaction, and that's

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a matter of administrative decision: whether it's a normal commercial transaction or funds for travelers.

Hanes: what kind of transaction, Herbert?

Gaston: A normal commercial transaction; those can be carried on without license. Now, just what our facilities would be for raising the question as to whether they are normal commercial transactions or not, I don't know.

Bell: we haven't any facilities except Federal Reserve Banks.

Thomas: It would be handled through your reports; that, I think, is what was done in '33.

Bell: How's that?

Thomas: It would have to be done through the reports.

Bell: There would have to be somebody to go over those reports. We'd have to set up a new administrative organization.

Hanes: It seems to me we'd have to do that in any event. We've got to have an administrative organization to handle the thing.

Bell: Probably have to rely to a great extent, certainly in the earlier stages, on the Federal Reserve Banks.

Feis: I have no sense of opposition or criticism of even that preliminary measure, but I would feel a whole lot easier if someone could really explain to me in a way that would convince me as to the reasons why we are even doing that. I feel we're going to do that, but I'm quite unclear in my own mind as to the reasons why we are, even in advance of the development of any situation, inaugurating an exchange control and exchange licensing system.

Townsend: I don't understand that it is proposed to do it in advance of a situation that might require it.

Feis: Except, as Mr. Hanes has said, we've got to go into that full committee tomorrow and they're expecting definite recommendations.

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- Townsend: As I understood it, it was thought that the situation requiring some action might develop so fast that there would not be time to carefully consider and prepare the proper Orders and documents to put the system into effect, and that it was thought that the matter ought to be considered in advance, thought out carefully, the steps that might be necessary to be taken prepared in advance, so when the moment arrived it could be done without delay.
- Feis: Quite.
- Cairns: I take it one of the functions of the sub-committee is to agree upon a time-table. I don't think any has yet been agreed upon.
- Thomas: You mean it is the function of this committee to decide what are the things that might be considered as requiring such action.
- Cairns: Yes.
- Thomas: Isn't that your (Feis) question?
- Feis: As I understand it, that's what the main committee would expect of us tomorrow.
- Gaston: As I understand, Dr. Feis, you were raising the question whether, assuming a state of war in Europe,...
- Feis: That's right.
- Gaston: ... it is necessary or desirable for us to make any change in the present exchange system.
- Feis: That's one way of stating it. I was rather going along with the general sense that it was deemed necessary to institute at least some form of licensing system. But I just repeat, I would feel more assured in my action if someone explained to me why.
- Townsend: That might be true, Doctor, but past experience has proven that when the thing starts to changing, it is apt to change rather precipitately and drastically, and it's too late then to think out your problem.
- Feis: Oh, quite. There's no - with your explanation of why Orders are prepared in advance I have no quarrel,

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I am raising a separate question. As far as I remember, until we got into the last war we did not inaugurate any system of exchange control. Is that correct or not?

Hanes: Is that correct, Dan? I think that's right.

Bell: I think it is. I'd have to check. But I don't think that we had any control whatever over the Exchanges until after the declaration of war - until sometime after.

Fels: Yes. Now, that committee tomorrow

Bell: We did close the Stock Exchange, I believe.

Hanes: Who would have the information here in the Treasury? Might be well to get some background on that, get started right away.

Bell: I really don't know. Probably be in the old Secretary's files. I'll look after it.

Fels: I'm sure, Joan, if you may permit the suggestion, if you just got the report of the Secretary of the Treasury for that year, I think you could

Thomas: There might be somebody in the bank

Cairns: Mr. Glasser said he could get it.

Glasser: I can find it.

Hanes: Would you do that? I think we ought to have some background on what was done the last time, to give us some - sort of guide us on what happens here this time.

Bell: The Stock Exchange was closed, was it not, in 1914.

Fels: I take it there's another set of Orders having to do with that subject somewhere.

Hanes: They were over in the S.E.C., Huntington. I'm sure the S.E.C. was with us when we went to the

Fels: I suggest at a certain stage we ought to have an S.E.C. man on this committee.

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- Hanes: You suggest what?
- Feis: At a certain stage we ought to have an S.E.C. man on this committee.
- Cairns: we have in the past. I'm told Frank was here at those meetings, and that Douglas was here at one stage.
- Hanes: I talked to Leon Henderson this morning. Frank is away and he's acting Chairman in Frank's absence, and he's coming over to have lunch with me today; and I thought I'd run over their part of this situation, such part as they are directly interested in, with the permission of this committee. And so far as I'm concerned, I think that we might well invite them to come and sit with us and talk this thing over before we go back to the committee with the final recommendation.
- Bell: Mr. Hanes, you remember that it was suggested at this first meeting that Commerce and Exchange Commission be called in later. I think the Department of Agriculture was overlooked. They're vitally interested in the commodity exchanges, and if you do anything to stock exchanges, you certainly would want to do or take somewhat similar action with respect to the commodity exchanges.
- Hanes: That's right. And they were in the first
- Bell: They were in the first meeting last spring.
- Hanes: They were at the meeting at the White House; I remember Secretary Wallace was there.
- Cairns: I understand Frank took the position that his Commission was without authority to close the exchanges; they had moral persuasion to utilize, and if the Exchange said, "We want to close," the Commission would say, "Fine."
- Hanes: I think they can close the Exchange with an Order from the President.
- Townsend: The Exchange can be closed for ninety days.
- Hanes: The President - and the Order is drawn - the President - I've forgotten how that Order was

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drawn; it was drawn in a very mild manner, suggesting to the Exchange that they close; not that it was ordered to close, but suggesting that they close.

Townsend: The statute gives them authority to close it for not exceeding ninety days, arbitrarily.

Bell: Well, I think Cairns is referring to our conversation with Archie Lochhead.

Cairns: Yes.

Bell: That was his recollection of Frank's statement. But I've been just the last few minutes going over the meeting we had here in April, and I haven't finished it yet, but I - what I get from Frank is that we do have the authority. He said in one place, "We can play it like a piano," and I take it that's broad authority.

Townsend: They can close it for ten days without approval of the President, and with approval of the President they can close it for ninety days.

Bell: I got the same impression.

Cairns: well, that's what Archie stated, but

Bell: I take it here Frank thinks he has authority to do most anything.

Thomas: But there is some idea that they want the Exchange itself to do the closing, isn't there, if necessary, or to work out some scheme for keeping it in operation?

Bell: Oh yes, they made that definitely clear at this meeting, that they wanted to do everything they could to keep the exchanges open.

Feis: May I talk aloud a minute, Johnny, just again sincerely ask some questions? This is in the Treasury field.

I take it thought's been given to the question of what would happen to, say, the value of the pound if we

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instituted any form of exchange licensing and control. Thinking aloud, nothing more, just plain thinking aloud, I take it that that means that the British Government, for example, through its agents, no longer freely operates in the exchange markets. If that is so, isn't it relieved of all responsibilities under the tripartite arrangement? Can that still be expected to operate? I don't know. I just raise the question.

Another way of raising the same question

- Hanes: wouldn't that, Herbert - right there, in answer to that, wouldn't that be subject to this more or less broad regulatory power of the Treasury; if we say, "Exchange transactions by the British stabilization fund - licensed," we'll say
- Feis: That's the thing I was going to say next. Wouldn't we possibly have to give some authority, even if we....
- Hanes: Am I right about that?
- Cairns: Yes.
- Feis: ... even if we started on that general thing - sort of a blanket authorization - I don't know - to the stabilization fund?
- Cairns: Just as we did in the regulations of November, 1934. They stated - the Executive Order prohibited exchange transactions in certain instances, and regulations modified the Executive Order by saying, "A license is hereby granted."
- Thomas: Well, if war starts and we don't get into it, there is some question as to whether sterling exchange could be maintained anywhere near its present level anyhow, regardless - I mean assuming that the British will be buying here. Of course, they'll have balances in gold they can use for quite a while, and it may be that with some exchange control which they themselves would also impose, the exchange might be held fairly steady for sometime.
- Glasser: They have already taken preliminary steps to get control of the foreign securities that are owned by British nationals, and they would probably have five

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to six billion dollars of property that they could liquidate.

- Gaston: There is nothing, I take it, in that Order, Huntington, which would affect direct exchange transactions between the stabilization fund and the British.
- Hanes: Except by licensing. You could give them a license.
- Cairns: In terms it does.
- Bell: Well, those transactions have the approval of the Secretary.
- Gaston: Those transactions have the approval of the Secretary, and could carry right with them, as an attachment, a license to carry on the particular transaction covered in the agreement.
- Cairns: If we merely restore the Executive Order of January, 1934, we are not meeting the point that the drastic Executive Order attempts to reach; that is, to assist foreign governments in the control which they want - which they may attempt to exercise with respect to American securities held by their nationals. It is not clear in my mind to what extent we want to cooperate, but the Executive Order - the drastic Executive Order permits full cooperation. That's a matter of very high policy as to which I have no knowledge.
- Fels: On that, which is a matter of the utmost importance, very confidentially within this room, there have been certain amount of preliminary conversations, as you (Hanes) know, left in an inconclusive stage, but one that could be carried forward.
- Now, I certainly believe, and now I'm thinking of our recommendations to the committee tomorrow, that whatever recommendations are made should clearly separate any suggested action in the field of foreign exchange licensing and control from any suggested action as regards reporting on or dealing with foreign property interests in the United States. You get two different sets of considerations, and I think that they can quite properly be separated, in fact with advisability be separated.
- But still sticking to the substance, leaving aside

the law - and, looking at that first page, it is not quite clear to me that the question of reporting on foreign property interests falls under the statute that is cited there, but maybe it does; I don't know; it's a point we'd have to look into - but assuming it does, I feel the two things ought to be separated, and that certainly if the reason behind any action as regards foreign property in the United States is to facilitate the execution of an arrangement for the liquidation of such property, any action should await the course of discussion, which could be very speedily carried out - it's been substantially prepared - with other governments.

Then I might add this. This is traveling - my remarks are traveling on awfully far ground in a short time. Any discussions with foreign governments have only concerned security holdings that might affect our security exchanges. Certain parts of this Order as drawn, inclusive of all property, including bank balances, touch that without prior discussion with these governments; and you are touching a complete central nerve center of their power in the first ninety days of this war, if it comes, to carry on; and when it was even most tentatively mentioned in these conversations, they ran right away from it. There is no understanding on that subject whatsoever.

Townsend: An intermediate step between the first two suggestions by you and the signing of this Executive Order would be an additional Executive Order amending the 1934 Order so as to make all transactions in foreign exchange subject to license.

Gaston: I think that can be done, sir, without an Executive Order under the terms of the January ...

Townsend: I think it can, probably.

Gaston: Yes.

Townsend: Then practically the only thing this drastic Order does is to reach out and touch all property required to be listed and located. I think that's the main difference between the other and this, isn't it?

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Cairns: That's correct.

Townsend: And of course, it was my understanding that it was only contemplated that this drastic Order would be used as a last resort,

Feis: I understand.

Townsend: ... if it became highly necessary to do it.

Feis: I understand.

Hanes: What's your recommendation? I like the recommendation - I like the statement that you made a minute ago, Judge Townsend, about the simple approach at the outset of restoring the Order of January, 1934, for a temporary measure, and then proceed cautiously as we go along, finding what things are expedient or necessary to do; have this other more drastic thing in the background that you could do if occasion demanded it.

Townsend: I think that's the wiser course.

Cairns: You're assuming the outbreak of hostilities.

Hanes: Huh?

Cairns: You're assuming the outbreak of hostilities.

Hanes: Exactly.

Townsend: Oh, I think all of this is predicated on that. I don't think there is anything in the offing that would suggest the necessity of doing anything unless that does happen. And if that happened, it is only in the event that it began to disturb our internal affairs that it would be necessary to take any action then. You'd have to have a pretty close finger on the pulse, so as to not let it get away from you.

Bell: That's what's worrying me, Johnny. I wonder how this committee can go there tomorrow and make specific recommendations as to what should be done, and I'm wondering

Hanes: Well, this is - here is my thought of a way to approach this. You see, this other sub-committee is

going to have a meeting at 2:30 this afternoon in the Secretary of State's - I mean over at the State Department.

Cairns: Berle's office.

Hanes: Berle's office. My thought would be that we outline - let's call this, for lack of a better term, the Townsend Plan.

Bell: We had one of those in the last Congress.

Feis: It was inevitable, Judge.

Townsend: Better call it something else.

Feis: It was inevitable, Judge, that that should come.

Townsend: No kin to that Townsend, not even an in-law.

Gaston: Call it the Judge Townsend Plan, not the Doctor Townsend Plan.

Hanes: I happen to know a good deal about your background. That's the reason I mentioned that.

But let's set these things down, steps one, two, three, and say to this committee this afternoon, "In our judgment, here's the first thing that's the minimum, and, as a course of procedure, here's the second and third," going all the way to the more drastic plan.

Townsend: I think you could put it this way: When it is determined that any action is necessary, that the first step be taken. If that does not suffice, take the second step.

Hanes: Yes.

Townsend: And if conditions get such as require it, as a final action take the third step. I think that's a good way to suggest it. You can't say definitely when to do it.

Hanes: Does that appeal to you as a possible course of procedure, Herbert?

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- Feis: Yes and no.
- Hanes: Well, let's get the "no" first.
- Feis: The "no" being that we ought to be better qualified here to indicate a judgment as to which of these things under the present circumstances is advisable, than is that sub-committee.
- Hanes: That was exactly my point in saying one, two, three, our number one being our recommendation of the immediate procedure, number two in case of necessity, number three in case of necessity. There may be number four, too.
- Townsend: Yes, there might be still further action.
- Hanes: Maybe we'll find that none of these things have sufficed. We may have to go a lot further than we have here. My thought is that we recommend this course - here it is - number one, that we do thus and so. Then that committee, as I understand - the function of that committee is to take the recommendations of this committee and either accept them and put them before the main committee, or to reject them and say, "No, we don't like them."
- Feis: No one knows yet, the thing is so fluid; I don't think this particular sub-committee was supposed to have intermediary authority
- Hanes: You think they were just to coordinate the efforts of the
- Feis: There were so many topics, it was impossible to work through the very large committee. It was a liaison committee - that's my understanding of it - rather than an executive committee.
- Hanes: Well, would you have objection to our setting down these various courses of procedure in the order in which we recommend that action be taken, and let that be submitted to that committee this afternoon, and the recommendations accepted or, as the case may be, rejected, if you like, and then bring before the main committee tomorrow not only these suggestions one, two and three, but the actual papers outlining each step, and all the documents necessary?

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- Feis: That seems all right, but I should like to see the thing actually drafted and I should like to press further for my suggestion that the question of dealing with foreign property be separated from the question of dealing with control of foreign exchange.
- Townsend: That plan would separate it - that dealing with foreign property. The listing of foreign property would be only in the last step.
- Gaston: You see, we have two steps here which would completely cover the question of prohibition of foreign exchange except under licenses. That would completely cover that without touching this general Order. This general Order is framed in such a way that it would be both a substitute for these other two steps and an addition to them, and the addition to them consists of the control over foreign credits and property in this country.
- Feis: Yes, except, Herbert, I could imagine we might want to do something about foreign property before we went to the last step on exchange control. That's also conceivable.
- Townsend: I doubt if that would be necessary.
- Feis: You've got two whole..... Suppose, in accordance with what I think Glasser said - suppose we did reach some sort of arrangement with one of these governments, dealing with the question of the liquidating of their property. We might want some such measure in the field of foreign property reporting even though
- Townsend: If you did, Doctor, all you would have to do would be to issue the Order.
- Feis: quite.
- Townsend: And the regulations could be made such that you could go even to the first step and the foreign property regulations, or the second step and the foreign property regulations.
- Feis: That's right. That's all I was suggesting.

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- Townsend: You see, the last Order would be merely a substitution for the Order now in existence, plus the property regulation. That's all it is. So you could take the foreign property regulation and the first step or the property regulation and the second step under the Order.
- Feis: Or you could go to the third step of foreign exchange regulation and still do nothing about property regulation. That's what I mean by separating the two topics.
- Gaston: Correct.
- Townsend: It's so it can be separated now.
- Cairns: I have a feeling we may confuse this other committee this afternoon and the whole committee tomorrow. I think both committees will look to this committee for a specific recommendation....
- Hanes: That's just what I propose.
- Cairns: ... in the event of hostilities.
- Hanes: Just exactly what I propose.
- Cairns: I feel we should agree on just one plan, such as the Judge Townsend Plan, the mere revocation of the November regulations, coupled with the statement that if circumstances develop which we can't improvise or foresee, we are prepared to take more drastic - we have the power to take more drastic steps.
- Gaston: That's my understanding of what Mr. Hanes proposes.
- Hanes: That's what I propose, exactly.
- Cairns: I feel we don't need to go into the other steps.
- Hanes: Well now, in order to crystallize that and get it down into the fewest possible words and simplest terms, so that this can be explained quickly, Judge Townsend, would you just outline that program as the thing you would recommend.

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Townsend: I don't know whether I can state it well or not. I'll try.

Bell: Does this contemplate some action on the outbreak of hostilities - will this recommendation contemplate some action?

Hanes: As I understand

Feis: On that, personally - I mean before the Judge begins - I in all probability will be willing to go along, but since even our most moderate recommendation means a system of immediate licensing of all foreign exchange transactions, I feel that before I could say conclusively that that was agreeable to the Department, I'd want to speak to Mr. Hull, who is returning this afternoon. And I don't know, I repeat, that I'm going to have an easy time making clear to him why it is necessary.

Cairns: You understand the Executive Order exempts three kinds of transactions. It exempts ordinary commercial transactions, travelers' funds, and legally enforceable obligations entered into prior to March 9, 1933.

Feis: Which makes it apply primarily to capital transfers; is that it?

Gaston: Yes.

Feis: Well, certainly that makes an enormous difference.

Cairns: Oh, it makes a tremendous difference. If I read - suppose I read the operating language....

Feis: Would you mind?

Cairns: ... so you know what we're discussing.

Feis: I really hate to take more time, but

Hanes: This is important. We ought to take all the time that's necessary.

Cairns: I'm reading Section 1 of the Executive Order of January 15, 1934: "Every transaction in foreign

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exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States, including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States, and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States by any person within the United States, is hereby prohibited except under license therefor issued pursuant to this Executive Order; provided, however, that, except as prohibited under regulations prescribed by the Secretary of the Treasury, foreign exchange transactions and transfers of credit may be carried out without a license for (a) normal commercial or business requirements, (b) reasonable traveling and other personal requirements, or (c) the fulfillment of legally enforceable obligations incurred prior to March 9, 1933."

Hanes: That was the Order of 1934.

Cairns: January 15, 1934.

Reis: I agree that makes nine-tenths of the difference. No doubt about that.

Can I - again trying to make sure that we know what we're doing, suppose it's a flow of exchange this way, suppose some citizen of a belligerent country wants to transfer his funds over here; will this license be - operate?

Cairns: For any transfer he will have to have a license, as I understand it.

Gaston: I should judge from the language it covers transactions both ways.

Cairns: Oh yes, "transactions in foreign exchange" works both ways.

Gaston: An American banking institution cannot engage to receive and cannot receive funds transferred from abroad, except under license, unless they are for those admitted purposes.

Thomas: Unless that foreigner were transferring gold, he would necessarily have to buy dollars, which would

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mean that somebody over here would have to sell him the dollars; so the other side of the transaction would come under license.

- Feis: Oh, I think that another question - in '34 did we have the stabilization fund? Is there any necessity of mentioning the fund in here?
- Gaston: We had the stabilization fund at the time this Executive Order was issued. It was issued on January 15; I believe the stabilization fund came into existence
- Bell: January 30, fifteen days after.
- Gaston: That's right. We didn't have it. The stabilization fund did not come into existence until the 31st.
- Bell: That's right.
- Gaston: I'm wrong.
- Feis: Now, would we have to take any explicit cognizance ...
- Cairns: I don't think it would be advisable to recognize it explicitly. If any paper is necessary, it can be drafted and just kept in the Treasury's files.
- Thomas: But during most of the period that Executive Order was in force, the stabilization fund was in operation.
- Gaston: That's right; that's right.
- Bell: What do you (Cairns) mean, a specific order to allow the stabilization fund to operate?
- Cairns: Yes.
- Townsend: That would be a Treasury
- Bell: Yes. The Secretary signs all orders, so that's an exemption or a license
- Cairns: Of course, each paper can be regarded as a license.
- Townsend: Be no difficulty there.

(A summary of recommendations was prepared, copy of which is attached, after which discussion continued:)

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- Feis: There is one more thing on which the full committee is expecting an answer tomorrow. We read it yesterday at the full committee meeting. The committee went over all the Orders to be issued under our neutrality proclamation except Section 3, having to do with loans and credits, and when it came to that, it put it over until this committee should have had time to study it and make a report to the full committee tomorrow. Now, the State Department had prepared an Order on Section 3. I think the Treasury has, too, although I'm not sure. Is that correct?
- Cairns: Do you (Glasser) know if we have?
- Glasser: (Nods negatively)
- Cairns: Not familiar with it.
- Feis: I might put that before the committee and see whether it thinks it satisfactory. It's regulations concerning credits to belligerents.

"Section 3 of the joint resolution of Congress approved May 1, 1937, reads in part as follows:..."

Should I read the whole section? It's rather long.

Gaston: Yes.

Feis: "Section 3. (a) Whenever the President shall have issued a proclamation under the authority of section 1 of this Act, it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent state or of any state wherein civil strife exists, named in such proclamation, or of any political subdivision of any such state, or of any person acting for or on behalf of the government of any such state, or of any faction or asserted government within any such state wherein civil strife exists, or of any person acting for or on behalf of any faction or asserted government within any such state wherein civil strife exists, issued after the date of such proclamation, or to make any loan or extend any credit to any such government,

political subdivision, faction, asserted government, or person, or to solicit or receive any contribution for any such government, political subdivision, faction, asserted government, or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its citizens, he may, in his discretion, and to such extent and under such regulations as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions."

Then the rest of the section is about solicitation of funds for medical aid, which we don't have to bother about.

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

"(c) Whoever shall violate the provisions of this section or of any regulations issued hereunder shall, upon conviction thereof, be fined not more than \$50,000 or imprisoned for not more than five years, or both. Should the violation be by a corporation, organization, or association, each officer or agent thereof participating in the violation may be liable to the penalty herein prescribed."

Then the Order. That finishes the statute.

"Under the provisions of this section and by virtue of the power delegated to the Secretary of State by the President's Proclamation of prohibiting the exportation of arms, ammunition and implements of war to _____ and _____, to promulgate such rules and regulations not inconsistent with law as may be necessary to carry out any of the provisions of the joint resolution of Congress approved May 1, 1937, the Secretary of State announces that the President has found that it will serve to protect the commercial

and other interests of the United States and its citizens to except from the operation of section 3 of the joint resolution of Congress approved May 1, 1937, as made applicable to and by the President's Proclamation aforesaid, ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions, and they are therefore hereby excepted until further notice."

- Bell: What is that, a proposed Executive Order?
- Feis: That goes along with the rest of the regulations.
- Gaston: That's Section 3, is it, of the
- Feis: That's Section 3.
- Gaston: ... of the proposed Neutrality Proclamation.
- Hanes: It's a drastic statute, isn't it?
- Gaston: Does it cover - it seems to me that - they speak there of issue before the date of the proclamation....
- Feis: This is a regulation, and the purpose is to exempt - is to act under this proviso.
- Gaston: In the terms of the statute and regulation, would it not permit transactions such as this? Well, the ones I'm thinking of would be covered by the Johnson Act anyway, so it's an idle question. But that doesn't seem to cover the question of an old issue, let us say, of British securities purchased in England by, say, an American bank and shipped over to the United States and resold within the United States - an old issue of securities. Of course, they are covered by the Johnson Act.
- Feis: Herbert, you're bringing up something that will turn the Treasury's hair gray. The more you study Section 3 - we had this special sub-committee - the more full of loopholes - legal loopholes the Section is.

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- Gaston: That looks as wide as a barn door. You have only the Johnson Act standing in the way.
- Glasser: That's full of holes; the Johnson Act is full of loopholes.
- Gaston: As to United States agencies, particularly.
- Glasser: Well
- Gaston: Well, yes, I know the other holes; I know what they are.
- Feis: Take the second sentence of this; I can just take a minute.
- "Whenever the President shall have issued a proclamation under the authority of section 1 of this Act, it shall thereafter be unlawful for any person ..." - and then they added "within the United States...." Does that mean you can just go to Canada and - I don't know.
- Gaston: The Johnson Act, as I see it, doesn't forbid the City of London to sell its obligations to the United States if the City of London is not in default on any debts to the United States.
- Glasser: Default on debts to the United States Government.
- Gaston: That's right - to the United States. So the City of London could sell its obligations
- Thomas: It also prohibits an American bank from buying previously-issued securities, or an American bank from buying British securities
- Gaston: You mean the Johnson Act?
- Thomas: Yes.
- Townsend: Yes, I think it does.
- Glasser: Not past issues, not issues prior to the Act itself.
- Townsend: Oh yes.
- Feis: I think the Treasury will have to be prepared, and

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this isn't - to set up immediately a committee to deal with questions that will arise under this Section 3.

- Hanes: Well, is it your idea that we're going to have to make a report; is this committee going to have to make a report back on this document tomorrow?
- Fels: Yes - I thought my job is to hand this over to you, as chairman of this committee - as to whether this draft is
- Gaston: To my non-legal mind it looks to me as if that draft covers about all you can do under that Section 3.
- Fels: Well, this regulation has as its purpose the taking advantage of that proviso which authorizes the President to exempt these ordinary commercial transactions. That's its sole purpose. And that's the decision before the committee.
- Cairns: Nothing as to the legal form. The legal form is perfect. It's the question of the policy: Do you want to except these transactions or not?
- Fels: That's the question before the committee.
- Bell: How would that affect whatever we do under one, two, three and four?
- Cairns: That's what I was thinking about.
- Bell: Might be inconsistent - certainly would be inconsistent with number one.
- Cairns: No, it wouldn't be inconsistent with number one; be inconsistent with number four.
- Fels: I don't believe it's inconsistent. I think if you still exempt them from the Neutrality Act
- Cairns: Not legally inconsistent. It may be the policy is.
- Glasser: This would be the feature of permitting a liberalization of the restraints and restrictions; if you didn't have that restriction, then - if you didn't have that exemption, then the Secretary might pass regulations

permitting commercial transactions, but they'd be prevented by that Order. On the other hand, if you permit that exemption, then the Secretary has the power to either permit or not permit it.

Feis: Quite. Unless you have that proviso, it means, let's say, that every sale of cotton on a 90-day bill - no longer. See?

Thomas: Well, it isn't necessary to say anything in this Executive Order about the regulations of the Secretary.

Feis: No.

Bell: If the Secretary took action under number two, which would revoke the Treasury regulations of November, 1934, it would be the same as this Order, wouldn't it?

Cairns: Yes; they both exempt ordinary commercial transactions.

Bell: That would be the same thing. So if you issue this, you jump from nothing to two on that one.

Feis: No, Danny.

Bell: Yes, it would.

Feis: No, because - say that again; maybe I didn't hear you

Bell: If you issue this one, you're complying with number two on our recommendation.

Feis: Oh, no. No, no. All this does - Section 3 itself flatly says: no loans or credits of any kind between the designated parties. This Order would simply say: no, there still can be credits of an ordinary commercial character. That's all this says. Now, if there is no exchange control whatsoever, those payments are made. If you impose two, you could still make these loans, but you'd have to - the payment on them would have to be licensed. And so on down the list. And if you imposed further bans there's no conflict of law there.

- Cairns: I should imagine that the Securities and Exchange Commission had studied this particular section and that we ought to have their view before we decide.
- Thomas: On commercial transactions, commercial credits?
- Cairns: On Section 3 (a).
- Gaston: This is limited to commercial credits by a government or political - to a government or political subdivision thereof or a person acting upon behalf of that government or political subdivision thereof; and I should think the case that would arise would be the case of a purchasing agent for a belligerent government seeking to buy supplies which are not munitions of war in the United States. Is that an ordinary commercial transaction which would be permitted - in other words, on which he'd be permitted to obtain short-term credit in the United States?
- Feis: Did you say munitions of war?
- Gaston: If it were not for munitions but for ordinary supplies.
- Feis: That's right.
- Gaston: That's the case that you have, as I see it, here.
- Feis: That's right, and this is within the Treasury field. As I say, if you pass this, the Treasury will have to set up a committee to answer queries.
- Now, certainly in our thinking the whole thinking was that by ordinary commercial transactions we mean only trade, not security transactions.
- Townsend: I think that's correct.
- Feis: That's been our thinking. And the Treasury would simply handle that work.
- Hanes: Commercial transactions don't mean transactions in securities?

- Gaston: Ordinary commercial credits and short-time obligations in aid of legal transactions of a character customarily used in normal peace-time transactions. Now, that doesn't mean that this is a normal peace-time transaction. It might be the purchase of several shiploads of wheat. They would be permitted to use the credit devices ordinarily used in commercial transactions; that is, an agent of the British Government would be permitted to use those credits ordinarily available in commercial transactions.
- Fels: Like a 90-day bill. And that was the intent of the committee of Congress that passed Section 3. I have ascertained that since by asking the committee, "How did you come to leave these many loopholes?" After talking with them, they said, "Well, that's what we - that's the law we wanted."
- Gaston: Normal peace-time commercial transactions.
- Fels: But it would be within the Treasury's power to decide, or the Treasury's committee's power - I think this ought to be an interdepartmental committee - to decide whether that exemption is limited to trade loans or anything in any other field; and our thinking has been right along that it would be limited to trade - to commerce.
- Cairns: Sale of merchandise and not securities.
- Fels: That's right.
- Gaston: Just on the face of it, it would look as if - laying aside the Johnson Law, it would look as if that permitted a bank here, acting as an agent for the British Government, to sell and distribute in this country British obligations, Consols and so on, issued prior to the issuance of the proclamation.
- Fels: Now you're not going to this particular exemption; now you're going right to the bulk of the text of Section 3, which admittedly is full of loopholes. But on that we can do nothing.
- Gaston: That's what I say.
- Fels: We can do nothing on that.

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- Gaston: The holes are in Section 3.
- Feis: That's right.
- Glasser: That would be the function of the Executive Order - to effectively block all those loopholes, and more
- Feis: An Executive Order - you can't block those loopholes without a new Act of
- Townsend: If anybody should have any doubt that your construction of that language makes it only applicable to trade in commodities, it can be so limited by the language of your regulation, because "the President may in his discretion and to such extent..." - so he can only limit it to that extent if he wants it limited.
- Cairns: That's something that's before us for decision.
- Feis: Well, yes, and it seemed the best way to do that is to have the President take advantage of this proviso and then when the Treasury gets out its necessary regulations administering that, limit it as you see fit.
- Gaston: The section doesn't say "This is permitted to finance ordinary commercial transactions," it says it is "permitted to finance legal transactions" by the devices ordinarily used to finance regular commercial transactions.
- Feis: Correct. And says it quite deliberately.
- Hanes: Well, do you want to pass on that at this meeting? Do you want some time for study?
- Cairns: Do you (Feis) want to outline the reasons for the issuance of this Executive Order?
- Feis: Primarily the reasons are that to cut off ordinary short-time credit would severely injure and interrupt much of our commerce; secondarily, that to go beyond this becomes an act of policy of not too friendly a character. It would only make it possible for people to handle ordinary commercial bills for the

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financing of goods in the United States. And thirdly, it was the intent of Congress as far as we can find out.

- Gaston: I am inclined to agree with your suggestion. I like this Order the way it is. And, of course, it will mean that we will have to set up machinery for administrative determination of the problems that will arise under it.
- Feis: You will have to set up machinery to handle the problems that will arise under Section 3 itself because of the loopholes, and secondly, the problems that will arise under this exemption from Section 3.
- Gaston: Yes, both ends.
- Feis: Both ends of it.
- Gaston: Of course, that's tied in quite closely with these foreign exchange measures that we laid out. It's the same machine.
- Feis: It's the same machine, but if you try to get one group of men to do that work, they'll go off their heads in about four days.
- Hanes: What is your wish on this one?
- Gaston: Well, I suggest that we approve the draft.
- Hanes: All those in favor
- Gaston: Are you (Cairns) ready to give your idea?
- Cairns: I'm in favor of it.
- Townsend: So am I.
- Bell: O.K.
- Thomas: (Nods approval)
- Hanes: All right. O.K.
- Feis: Then will you report it to the full committee tomorrow?

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- Hanes: We'll report it to the full committee.
- Huntington, you bring that along to the full committee tomorrow with these other recommendations, and we'll recommend the approval of that Order.
- Cairns: Yes.
- Hanes: Herbert, you probably want to take that with you this afternoon in case it does come up before this other committee.
- Gaston: Yes. Well, I'll want Huntington to go with me, if it's all right with you.
- Hanes: Yes, absolutely.
- Feis: Would you take the precaution - as far as I know, that's the only copy which we have - would you take the precaution of having one copy made somewhere?
- Cairns: Yes, and I'll return this one to you personally.
- Hanes: You can have it photostated.
- Feis: I'm turning it over to the chairman of this committee.
- Hanes: All right, gentlemen, if there is no further business we'll stand adjourned.

RECOMMENDATIONS WITH REGARD TO FOREIGN EXCHANGE

In the absence of emergency of such extreme character as to require otherwise, it is recommended:

1. On outbreak of hostilities, take no immediate action.
2. If conditions require action, revoke Treasury regulations of November, 1934.
3. If conditions require further action, issue new Treasury regulations requiring all transactions in foreign exchange to be subject to license.
4. If conditions further require, issue the Executive Order prepared in April of 1939, or some modification thereof.

RE MEASURES TO PROTECT VARIOUS
MARKETS IN EVENT OF WAR IN EUROPE

August 23, 1939.
3:00 p.m.

Present: Mr. Hanes (presiding)
Mr. Bell
Mr. Glasser
Mr. Woodlief Thomas
Mr. Carl Barry
Mr. Leon Henderson
Mr. Francis Green
Mr. Feis

Hanes: "While we're waiting for Feis, we might - have you seen - might read this memorandum from Mr. Glasser here. This is action taken by the United States in the field of foreign exchange during the Great War.

"The following represents the action which was taken by the United States in the field of foreign exchange and security markets during the Great War:

"1. The New York Stock Exchange voluntarily closed on July 31, 1914. Although the sales of large blocs of stocks were thus halted, unofficial trading between individuals on Wall Street sidewalks began after a few weeks and continued until the Stock Exchange was opened on December 11. The Stock Exchange did not close in April 1917 when the United States entered the war.

"2. The Treasury made available to banks during the period August to October, 1914, a large amount of emergency currency to take care of a possible panic demand for currency."

(Feis comes in)

Feis: Sorry to be late.

Hanes: I was just reading the steps we took in the last war, as regards securities markets.

Feis: Before we got in or afterwards?

Hanes: The first thing that happened - in 1914 the Stock Exchange was closed. The Treasury made available to the banks between August and October, 1914, a large

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amount of emergency currency to take care of possible panic demand for currency.

"3. The Treasury called a conference of bankers and business men for the purpose of restoring the foreign exchange markets (and the commodity export trade) which had been disrupted by the outbreak of war. This conference adopted resolutions and committees were set up to work out the best means of solving the problem in cooperation with the government.

"4. The secretary of the Treasury and Federal Reserve Board approved a plan for setting up a gold fund of \$100 million; the gold was contributed by banks and trust companies and the fund was administered by a committee of bankers in New York. The establishment of this fund is supposed to have had a salutary effect on exchange although there is no information readily available as to its operations.

"5. On September 7, 1917, four months after the United States entered the war the President, under authority of the Act of June 15, 1917, issued a proclamation prohibiting the exportation of coin, bullion and currency on and after the 13th of September, 1917, except under Presidential regulations.

"The Treasury Department initiated a series of negotiations with foreign countries for the purpose of stabilizing the exchange rates between the United States and neutral countries.

"6. The United States Government permitted, by the use of its loans and credits, the support of the exchanges of Great Britain, Canada, France and Italy upon the United States exchange markets during the period we were in the war. The Treasury also effected arrangements for stabilizing the foreign exchange rates of a number of neutral countries.

"7. Capital Issues Committee was created early in 1918 to pass upon proposals for the issuance of new securities to determine whether or not the issuance of such securities was compatible with public interest."

There's not a great deal to that, is there?

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Henderson: Good summary, though. Could we have copies of that?

Hanes: Huh?

Henderson: Could we have copies of that?

Hanes: Yes. Have you (Glasser) got any copies there with you?

Glasser: I have some copies.

Hanes: Will you give a copy to each one of these

Glasser: Don't know whether I have enough.

Hanes: You can have some more made and sent to them.

Thomas: Also, a committee in New York that Ben Strong ran had something to do with limiting the use of credit on the Stock Exchange.

Hanes: We'll have copies made. Glasser, you'll have copies made if you haven't got enough copies. Just see how many we've got here. We want one, two - all you need is three.

Thomas: I'd like one for the Federal Reserve.

Glasser: Yes.

Hanes: Have you got three there?

Bell: That probably could be expanded a little.

Glasser: Yes.

Bell: It was done very hurriedly and checked rather quickly, and we didn't go over all the records. We might find something later in '17 and early in '18 that was skipped here.

Hanes: If we do supplement it, send that to them.

Glasser: I have enough copies.

Hanes: All right. Just give each one of them one.

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this meeting - I thought we'd better in this meeting get Mr. Henderson to come over and talk with us about the next step.

We have this morning concluded the recommendations to be made to the committee in regard to foreign exchange, which are as follows:

"In the absence of emergency of such extreme character as to require otherwise, it is recommended:

- "1. On outbreak of hostilities, take no immediate action.
- "2. If conditions require action, revoke Treasury regulations of November, 1934.
- "3. If conditions require further action, issue new Treasury regulations requiring all transactions in foreign exchange to be subject to license.
- "4. If conditions further require, issue the Executive Order prepared in April of 1939, or some modification thereof."

That Order that was prepared in April 1937 outlined the maximum power under the statute that the President would have in any emergency. That's right, isn't it, Judge?

Townsend: That's right - over foreign exchange.

Hanes: Over foreign exchange.

Now, subject to discussion here this afternoon as to what steps we'll take in the securities markets outside of the foreign exchange

I think you (reporter) needn't make a copy of this, because we've already got the record of this. I'm just going to read Mr. Frank's letter so as to bring everybody up to date with the last meeting. I think I'd better just read this memorandum, which is from the Securities and Exchange Commission. This reads as follows:

"We are of the opinion that it would be desirable, both from the point of view of public psychology and of the end that our investors may be provided with a continuous market for the purchase and sale of securities, that our markets should remain open at all times. However, conditions over which there may be no control may so demoralize those markets as seriously to jeopardize the interests of our investors and unduly affect the public psychology. It is therefore our view that all possible measures should be taken in advance of an outbreak of war to control those detrimental influences and that a close watch should be kept for the appearance of uncontrollable factors indicating the advisability of taking measures toward the closing of the market in order to ward off the effect of panic conditions.

"We understand that negotiations have been instituted in an effort to obtain assurances from the member governments of the Tripartite that American securities as well as other interests and properties in America owned by nationals of those governments, will be taken over and held and will not be sold on our markets without prior consultation with our Government. If obtained, these measures should go far toward preventing undue selling pressure in our markets.

"We respectfully suggest, however, that the terms of the agreement sought should be widened to the extent of obtaining guaranties that in the event of the outbreak of war these countries will place upon their nationals a prohibition against selling of American securities in American markets in the absence of an express permission issued after consultation with our Government. This suggestion is advanced in an attempt to prevent a speculative raid upon our markets through the employment of the device of short selling, the use of which would not be forestalled by the assurances presently held or which have been discussed with the British Government and are being sought from the other members of the Tripartite.

"We propose to make arrangements between this Commission and the governing officials of our national security exchanges, particularly the New York exchanges, establishing a complete system

of minute-to-minute observation of factors entering the market and of current interchange of information in hand. Thus it will be possible to detect the point of danger at which selling orders in nature and extent so predominate over buying orders as to presage a demoralization of the price structure and resultant panic conditions.

"Should this point arrive, it is our considered opinion, as expressed in the memorandum of April 12, 1939, that steps should be taken to close our national securities exchanges and to obtain cooperative measures from organizations of brokers and dealers in the over-the-counter market. Thereafter every effort should be made to reopen those markets at the earliest possible time and under such restrictions and supervision as may seem necessary or desirable.

"The suggestion has been made that even if matters reach a serious panic stage, rather than to take the immediate course of closing the markets they should be permitted to remain open, even in the face of such panic conditions, under some type of restrictive limitations. With this view we cannot agree, and in this connection reference is again made to the memorandum of April 12, 1939. As already pointed out, our Commission is fully prepared, once the approval of the President is obtained, to issue orders closing our exchanges within a space of a few minutes, if that becomes necessary.

"(Interpolation by Frank:) I might add that the papers that we have prepared have been examined by the Attorney General and he approves of their form.

"We reiterate, however, that every endeavor should be made to keep our markets open and available if that can possibly be done consistently with the best interests of the holders of the securities of our American enterprises, as well as potential investors in those enterprises."

Then Frank goes on to say - he says, "I might say that the one novel idea suggested here was developed

since our last conference here, and that was that even if the securities held by nationals of foreign countries were fully taken over by those respective countries, there would be the possibility of short selling, which might be very serious; and we suggest that the possibility of precluding that kind of eventuality should be considered."

Now, after that meeting - I haven't refreshed my memory as to the rest of this discussion; I was here, as I recall. Danny, what happened next? The Commission went back and drafted up the necessary papers and we brought them all over to the President and he approved them at that afternoon meeting, and those papers ought to be in your possession over in the

Henderson: We have them.

Hanes: You have them. Well now, have you got any thoughts of any further step that we ought to take at this time in the matter - on these recommendations?

Henderson: We have a further recommendation, sort of ancillary to this. Since the April meeting, the Maloney Act has gone into force and there has been created - what is it, a

Green: National Association of Security Dealers.

Henderson: ... National Association of Security Dealers, representing a substantial portion of the over-the-counter dealers.

Green: All the important houses.

Henderson: And that Association is getting its organization well under way and we are drafting for the President a telegram similar to the one which was suggested for the commodity exchanges, inviting their cooperation in refusal to make security transactions during the period in which the national exchanges are closed.

Bell: Is that the only control you have over them - is one of cooperation?

- Henderson: Yes, but the - but that is a pretty significant one, in view of the eagerness of some of the members to make a success out of that Association. It would give you something better than was had in 1914 in that seven-months period when there was bootleg trading.
- Hanes: It's going to be an awfully hard job to stop the so-called "gutter" market in any event. If people have to sell things, they have to raise money, they'll go to the gutter market and do it, I imagine. But this is undoubtedly
- Henderson: But wouldn't it mean that only small blocs could be exchanged?
- Hanes: Oh yes, you're in a much better condition than you were before, with this Association, I should think - much better.
- Henderson: I'd like at sometime to get up-to-date on what that fourth point is, and the maximum powers over exchange, and I expect I could do that sometime running through the
- Hanes: I think the best - I think the best way to do that would be to get Huntington Cairns to read you this Executive Order, which states - that's - what was that - that was under Section 191?
- Townsend: Trading-with-the-Enemy Act, as amended by the Act of 1933.
- Bell: By the Banking Act.
- Townsend: Yes, by the Banking Act.
- Henderson: By the Banking Act.
- Townsend: The main thing added by this Executive Order to the powers already possible under the Executive Order of '34 is a listing and a reporting so as to have located all alien-owned property in the United States, wherever it can be located - complete reporting of all property held by any person for an alien.
- Henderson: I presume the members of the committee know that in

the Department of Commerce an attempt has been made to find out which companies in America, which plants are owned by nationals of other countries. I don't know how far that's gotten, but certainly they have made some attempt to find out, just as they undertake to know what the holdings of Americans are abroad, - to know what is held here. We are expecting to present some of that material before the T.N.E.C. before the end of the year.

Hanes: Herbert, have you any suggestions here that we ought to go any further?

Fels: I've got a good many observations. The first observation is to again reiterate my understanding that we are discussing American policy during a period of neutrality in which we are not at war.

Hanes: Right.

Fels: And not policy in which we're at war. And that, therefore, before imposing measures of control, I think it is incumbent upon all of us to understand just what the objectives are that we're shooting at. With that I return to our discussion this morning for a moment. Of course, as soon as I got back and got talking with Berle and he put up to me the question of what are we shooting at with this most rigid exchange control, I couldn't tell him, and I couldn't find out this morning. But then I explained to him that we were not recommending that - that our recommendations followed the other Order, and that more or less clarified that.

And my second observation is again a reiteration of something I said this morning, that as far as the State Department was advised, there is - it knew nothing of developments in this field since the two large meetings held in the office of the Secretary of the Treasury. And, though Berle was, I presume, in possession of this exchange Order, it had never been the subject of discussion. And so on this, since those two large meetings, the Department has never been advised of the further course of consideration as represented by the document you have just read. I don't know what its date is.

Hell: That was April 15. You were present at that meeting.

Fels: This isn't a later thing you just read?

Bell: This is April 15. Your name is on the list.

Fels: Then that question doesn't arise in this connection.

Then to go to the document itself, the first point I'd raise is the one I raised that day, which I then had the opportunity of talking through with Mr. Frank the same day. You remember I, meaning to be half-teasing, spoke about the "irrelevant parentheses." Well, that's still in there, on the first page - in which the shift is made from the question of securities to the question of other types of alien property. And I suggested that the committee might first consider whether it has any purpose in dealing with other types of alien property, particularly bank deposits and so on, at this time, and whether such action falls within the purview of S.E.C., although that is secondary. And when I went over that with Mr. Frank, he said he had put it in merely for formality, to square with an earlier Treasury document which had included it, but that his interest and the S.E.C.'s interest was wholly with the security aspects of the question and that he would drop it, he had no interest whatsoever in it.

It is so important because it concerns the available liquid funds with which certain governments would undoubtedly count on financing their supplies of food, cotton, stuff like that, and to tie that up is tantamount almost to condemning them to defeat before the struggle has started. And I therefore say that certainly any consideration given to it should not be incidental to the question of the protection of our security markets, that it is a wholly different question. Now, I don't know whether you want to dispose of that before I go on to other points or not. Just as you think best.

Hanes: Well, I had rather hoped we could confine this discussion here to one which immediately concerns the Securities and Exchange Commission, which is the protection of American investors, and as I understand it, that's what we're directed - what these Orders, for instance, that the President approved - what that was directed toward was the

closing of the markets. I don't think it went any further than just the - I don't know, maybe I'm mistaken - I think your (Henderson) papers just go to getting the President's approval on the temporary closing of exchanges should panic conditions arise.

Now, that I don't - I see your (Feis) point. What you're getting at is a matter of putting on such clamping down, such restrictions on the movement of foreign assets, that they could not be - they'd be unable to buy or sell.

Feis: Just again because it happens to be mentioned on the first page of the thing you read - that's the only reason I brought it up.

Henderson: Well, as I recall, and this is very vague, in the considerations with the British as to what they would do, they indicated that not only would they take steps to impound the securities, but they would undertake to take over the other property holdings. Wasn't that correct?

Feis: No - I mean I hesitate a little bit to discuss what happened. They showed a complete willingness to cooperate with us in every way that we might suggest as regards any possible liquidation of British securities over here. On anything else they completely evaded discussion, and we dropped it.

Henderson: Well, I'm glad to have that, Herb, because my information on that did not come through the S.E.C. route and I evidently got it wrong.

Now, have there been any conversations with other members of the Tripartite as to what they would do?

Feis: This information I'm giving you is Treasury information.

Hanes: That's all right, we haven't got any secrets here; let's get it all out in the open.

Feis: Do you authorize me

Hanes: No, that's all right.

Feis: The thing was done in a great hurry, and through our man in Paris we made certain approaches to some of the smaller members of the Tripartite - my memory is Holland and Belgium.

Bell: Switzerland.

Feis: Maybe Switzerland - I've forgotten. They all immediately went into an excited funk. Our man didn't get, by virtue of the fact that he was told to act with extreme hurriedness - he couldn't get that quickly to the people he had to see, and the thing just lapsed at about there.

Henderson: There's been no resumption?

Feis: No, and that's one of the important things that we've got to discuss. The French discussions, beyond also eliciting a general willingness to cooperate, reached no clear issue either. The British went farthest and reached the point - you can almost call it agreement - where they said "Yes," but all of this as regards the liquidation of securities and the protection of American securities markets - limited to that.

Henderson: Is there any information as to what intelligence the members of the Tripartite have about the holdings of their nationals in this country? How complete is it?

Hanes: Their knowledge about their holdings?

Henderson: Yes.

Hanes: That's one I can't answer.

Feis: I'm sure the French don't know.

Henderson: Do not know.

Feis: No.

Bell: About all kinds of properties, now?

Henderson: No, securities.

Feis: The Swiss make it a point of not knowing.

Henderson: In order to get business, I expect.

Feis: Right. I think the English probably can give you more reliable estimates more quickly than any other by circular. But there again I get back to purpose. I take it our sole purpose is to see that our security markets and our general economic condition are not injured by an unnecessary collapse in the security markets. And I think you can probably count on both England and France anyway to work with you to that end. For one thing, if they're going to have to liquidate these at some time or other, they want to get the best possible price for them. I think you can count upon that.

When you get to the small fellows, we may run into greater difficulty.

Henderson: Well, has anybody got an intelligent guess even as to whether or not the small members of the Tripartite would be likely to liquidate or, as some observers think, more likely would buy in our market? Has anybody made an intelligent guess on that?

Hanes: I never heard of it.

Feis: I'll bet the capital movement will be this way, and heavily this way. Now, whether it goes into securities or not, I don't know. But foreign selling is not going to wreck your American markets. It's perfectly asinine.

Henderson: I have an inclination to agree with you.

Feis: Just as obvious as the nose on your face.

Henderson: I have an inclination to agree with you.

Hanes: My recollection is that their holdings - all foreign holdings of the volatile issues of common stocks in this country don't amount to much over a billion and a half dollars.

Henderson: Yes, but that represents as much as a full three months' trading recently.

- Hanes: Well, I understand, but it isn't - I mean it isn't a thing that we had to contend with at the last war.
- Henderson: We had a long account of some eight or nine billion dollars, maybe.
- Feis: Isn't it also true, Leon, as far as the records go, the foreigners have not - for example, the records covering the Munich crisis didn't show that foreigners sold.
- Henderson: The peculiar thing
- Green: They were buying on balance on certain of the worst days of the Munich crisis.
- Henderson: But it's a curious thing - in our recent rise in July there was very substantial selling some days.
- Glasser: There was a persistent selling movement during the past six weeks, past eight weeks. It isn't large, but there's been foreign selling.
- Henderson: But it was selling on a strong market. And on a weak market, in the Munich crisis, many days, as noted, there was buying.
- Feis: There, John - I'm now wondering - is, of course, the great Treasury problem, if this comes, to which all others are secondary, which is: suppose you get another three, four, five billion dollars worth of gold. I mean there's the problem. The things we're spending our time on today are unimportant. But the problem of what you'll do if you get another four or five billion dollars worth of gold
- Hanes: We've been thinking a little bit about that.
- Thomas: You say that's the important problem?
- Feis: Yes, sir. But what to do about it is - I haven't ...
- Bell: I think we thought about it when it was down to twelve billion, and now it's up to
- Hanes: Sixteen two. Got another four billion after we thought.
- Bell: That's right.

- Henderson: I haven't noticed the difference.
- Feis: We're still thinking.
- Hanes: We're still thinking.
- Henderson: But - yes, but as far as the price level is concerned, it's had no effect at all. So there certainly is something within the mechanism for rendering it redundant.
- Hanes: Well, the main point of this discussion here this afternoon was to find out if there is anything, in the opinion of this committee, which we ought to recommend - ought to suggest to the S.E.C. that they do, or that the S.E.C. wants to suggest that we do, which would augment what has already been done, or is the situation - are you satisfied with it?
- Feis: I'd suggest that we might recommend that an extremely close watch be kept over the security markets, the Orders necessary for controlling them be all prepared, and that if at any time the S.E.C. and the Treasury together believed that such action is necessary, they'd call another meeting to consult on the thing with a view of making a recommendation to the President.
- Hanes: That's practically what the S.E.C. themselves recommend. They say that "It is therefore our view that all possible measures should be taken in advance of an outbreak of war to control those detrimental influences and that a close watch should be kept for the appearance of uncontrollable factors indicating the advisability of taking measures toward the closing of the market in order to ward off the effect of panic conditions."
- Henderson: In that connection, as far as close watch is concerned, I think that as far as the New York exchanges are concerned we've got as rapid a check on unusual movements as could be expected. We maintain that, of course, as a current thing in order to detect jiggles and manipulations of all kinds.
- Thomas: You mean by a check, a check on information, or do you mean a check rein?

Henderson: No. You might call it tape-reading, if you want some term for it. And we have it in such a way that our people in the New York office can be into the brokerage offices in a very, very short time.

Hanes: Well, you've also got a pretty close check on all the dealers in New York who are dealing abroad, so you know instantaneously of any movement either to or from this market.

Green: We get the figures on foreign buying and selling at the close of the market every day - in the New York office between six and eight at night, and down here the next morning.

Feis: What would a typical day's trading be during these days of recently quiet trading, a typical day's trading on foreign account? About how many shares would be bought and sold?

Hanes: Have it in the form of balance in dollars.

Green: We have it in shares and we have it in dollars.

Hanes: Oh, you have both.

Green: I would say the balance will run from five thousand to ten thousand shares, one way or another.

Feis: And volume would be about how much?

Bell: You mean in how many

Green: That's the balance.

Henderson: That's the balance.

Feis: Balance arising from a total of fifty thousand shares or a hundred thousand shares?

Green: Well, the average daily volume of trading is eight hundred thousand shares or thereabouts - eight hundred thousand to nine hundred thousand. Total foreign participation, I'd guess, ten percent.

Feis: Ten percent.

- Green: This, of course, is all subject to immediate authoritative check. I can get those out in
- Feis: We're all so vague. I had no idea whether it was five percent or ten or forty percent.
- Green: It's around ten percent.
- Feis: I was trying to get the range.
- Hanes: Well, is there anything else you want to suggest now?
- Feis: Yes. I also think then - now, whether this is just for this group or whether it's for the Treasury alone or whether it's for the full committee, I don't know - I also think the time has come where we ought to resume discussion with, at any rate, the British and French governments about this matter of arrangements bearing on the liquidation of their securities in time of war.
- Hanes: Well, as I recall, Herbert, the last time we took this thing up we got - I think we got messages from both Kennedy and Bullitt. Would you take that up with them from your Department?
- Feis: Well, you'll have to give us the instructions. We'll gladly act as the intermediary.
- Hanes: I wondered how that was done before. I remember seeing the cables that came through from Bullitt and Kennedy.
- Feis: In the case of the English, it simply means going a little bit further and asking them for information now as to whether they have developed the practical arrangements necessary to carry these out. We've got that in pretty considerable detail. In fact, I now believe that the Treasury has in its files certain papers from the British that pretty well give that necessary detail. I think those would have to be studied - those will have to be studied again and see what more we want, if anything.
- Hanes: Dan, will you look up and see if we've got those?
- Feis: We've got more work to do with the French. And my

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suggestion is to limit ourselves for the moment to the French and the British, the belligerents, and get those in hand before we go on to the other three countries.

Henderson: Has anybody got an intelligent guess as to which of the three, Belgium, Holland or Switzerland, has the greatest amount of American holdings?

Feis: Holland.

Henderson: Holland.

Feis: (Nods yes)

Bell: Is there any suspicion that Holland might

Feis: They never sell, Leon.

Henderson: What?

Feis: The Dutch never sell; they just pile it up.

Henderson: You can get rich that way.

Thomas: Switzerland and Holland on stocks and bonds are pretty close.

Bell: Herbert, is there any suspicion that Holland might be piling up some balances in this country for Germany?

Feis: Oh, I think you could ...

Bell: In which case there might be some selling.

Feis: I think you can assume that both Holland and Switzerland represent - this is pure hunch - I suspect that the Dutch investment is primarily Dutch investment, but that the Swiss investment is for the whole darn world, including Germany.

Bell: So there might be some recall of balances in case of war.

Feis: Well, I doubt that. Maybe. It's possible. What of it?

Henderson: Just a payment in gold.

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- Feis: How are the Germans going to get the gold over there?
- Henderson: I seem to have heard of a plan of cash-and-carry, or move it down to the dock for them and tell them to come and get it.
- Thomas: The Dutch can take it over. Would they?
- Feis: I guess you're right. That's how they'd get it over there.
- Henderson: Sure.
- Thomas: Question whether they'd want to take a chance.
- Hanes: Well, there are the two suggestions now. Is there anything more we've got to add to that? Dan, do you see anything further we ought to do in this matter?
- Bell: No, it seems to me the situation here is about the same as it was this morning, that there isn't anything that you can do definitely. Might be ready to take action on two or three fronts, but the first thing you've got to do is see what happens on the outbreak of war, and study the situation and see what step you take first. Might be very mild; might do nothing, as we said - number one - this morning, or it might be very mild, as in number two. And just what the Exchange Commission could do as a mild step as compared with a drastic one
- Feis: May I suggest this before I forget: that on the second thing I suggest that perhaps beyond indicating to the big committee that the question of liquidation of securities is being studied, that this matter of discussion be kept as a matter within this group; because it will give rise to all sorts of rumors that might affect the outcome of the negotiation itself, it might start movements in the securities markets, and all of that, if the knowledge of these conversations were to become generally known.
- Henderson: I might say that we have taken a business-as-usual attitude and have played down any inquiries from the

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press as to the effect on the American markets.

Hanes: I notice in the

Henderson: And I have not had any communication from the Stock Exchange either, so that evidently nothing is available in the way of information to the Exchange indicating any dislocation; and I think usually you would have some indications of that.

Hanes: I notice in the last meeting here the Secretary called the attention of the members of this group to the fact that he had been asked specifically by Belgium, Holland and Switzerland - wasn't it, Danny? -

Bell: Uh-huh.

Hanes: ... that their name be not mentioned in any connection with this. They are terribly fearful that - they didn't even want to talk to us about it.

Feis: Exactly. When they saw Cochran, they almost climbed up to the roof.

Hanes: They didn't want - they were so afraid it would get back over there that they were having discussions along this line. So I just caution you all to keep this under your hat. I know you will. It isn't necessary.

Well, I don't think there is anything more unless somebody else has got something to add.

Thomas: Did I understand from Mr. Frank's letter that it is the view of the Commission that in case - if the exchanges - they would rather close the Exchange than to impose restrictions on trading? Is it an alternative between complete closing or complete freedom, or is there some middle ground?

Henderson: If there were strained conditions, it is the opinion of the Commission that we ought to close with the idea of opening as soon as possible, and using the interim period for taking stock and for considering any proposals which would limit fluctuation.

Thomas: Closing ...

Hanes: That difference was made by virtue of the fact that somebody had suggested a restriction of ten percent fluctuation in value per day, something of that kind, and the Exchange Commission, I think, was opposed to that.

Parry: Those plans look in general to me as if they were pretty good. I studied the matter last fall and again this spring. While I was not in attendance at these meetings, I knew something about them through Mr. Goldenweiser, who was here part of the time; and I followed what was in the papers, and so forth.

I studied the matter last fall and again this spring, and am myself persuaded that the real threat of a demoralized market over here is not from foreign selling, either for long account or, for that matter, for short account, although so far as short selling is concerned, it is anybody's pure guess. The real threat, in my opinion, does not come from that source; it comes from domestic selling. And domestic selling I expect to be in very substantial volume, partly because on very weak days, over the last year or two, particularly when there was foreign news to sell on, the selling was frequently of that irrational character that you can't do anything about. The customers simply won't listen to you.

Furthermore, I believe that the disposition on the part of traders, including the semi-professional and the amateur, to run away at the first sign of danger is greater than it used to be in past years.

So that, whatever limitation on foreign selling may be in prospect through their mobilizing their securities and holding them for a better market and so on, I consider the main problem to be a domestic problem, and I think preparations should be made for rather heavy selling from domestic sources.

From the plan as outlined, it would seem to me that the outcome will be a closing of the market, unless there are features that I do not know about. My reason for feeling that is that these things develop with extreme rapidity. In 1914, as recently as the day before - as the night before they closed the market, there was sharp difference of opinion amongst

qualified people as to whether they should close or not; but before the opening the next day, after London had closed, it was perfectly evident that there was an avalanche of selling orders, and they made the decision to close within a matter of a few moments before the opening.

What I am suggesting is that the thing moves with such extreme rapidity that if war should break out tonight, you wouldn't have time to wait, of course, until tomorrow afternoon to get the reports on the foreign selling. Nor, for that matter, could you - would you, I think, be able to get very much from the tape, because the first problem that arises would be on the floor when the governor in charge of a given post will be asked his permission to allow that stock - say Steel or Anaconda or whatever it is - to open at the following price. According to the general rules of the Committee on Floor Procedure, he must approve the opening price. Well, if it's two points, five, ten, or fifteen points below what it was last night, it would be that man's judgment at that time to determine the question.

I understand that the plans that have been made by the New York Stock Exchange are fairly comprehensive. Probably you know more about them than I do. But what they amount to in principle is the establishment of control through, first, the Executive Committee, which in time of crisis would be represented on the floor by one of the governors of the Exchange at every post or, since there aren't enough governors, perhaps some ex-governors, all of whom are old hands; they're cool heads, they're seasoned. In addition to that, certain of the reporters who report the transactions so that they'll be put on the tape have been selected, with one cool head to take the lead at each post.

These governors have certain instructions which I do not understand in detail, but so far as I do understand them, the governor has before he starts authority to permit that stock to open, to permit sales to be made either on the opening or subsequently at a price not more than ten percent below last night's close. In some of their earlier discussions I understand that the figure of five percent was discussed, but that in the end it was ten percent that they decided on.

In my opinion that is the one serious and probably fatal weakness of the scheme; for if it is within the authority of the individual governor to let the price open at ten percent down or to let it go down ten percent before he calls a halt, that is, before he says, "No, there shan't be any trading in this stock at all because it can't open at a reasonable price," there is a risk that the domestic selling which I anticipate will in fact force the market down to the limit practically at the very opening, which is, if it takes place in the market leaders or on any considerable scale - will itself throw a scare into the trading public, and you'll have exactly the situation which will call upon the Commission to use its powers for closing the Exchange.

In my opinion, they should take a leaf from the book that they wrote in 1914, when the Exchange opened in December after having been closed from the end of July. They ought to put into effect now a rule that they put into effect then, and in some such form as this: that so far as the very first day is concerned, no official of the Exchange shall be permitted to authorize any sale at a price below last night's close.

That is a drastic rule. It would result in no trading in a great many stocks. I do not think it would result in no trading in all stocks, because there are some stocks which would go up in consequence of the war and there are others which are less affected generally than some of the more volatile stocks. If they would supplement their present plan with a rule of that character, with the understanding that the committee in charge would do tomorrow or the next day or the day after what the committee in charge in December did the second, third, or fourth day, as occasion offered, and change the limits - for the first day, no sales below last night's close; then, on the basis of what is learned today, let it be said that such and such stocks, two points down, others five points down, and so forth - that's merely following the pattern that was followed in December, 1914.

In my opinion, the present scheme needs to be supplemented by a rule which will put a floor under

the market for the very first day, or else the set of conditions will arise perhaps at 10:15 or 10:20, or very soon in the morning, which will call upon the Commission to use its powers to close the Exchange.

Now, while I think that's the way it should be handled, I do not think that it would be particularly serious even if the Exchange were in fact closed at the very outbreak of the war, particularly if it were closed with the understanding and the expectation that it would be opened as soon as possible; because I think as soon as it is closed, all of the experience gained in 1914 will be promptly reviewed, in so far as it hasn't been reviewed already, and a scheme something like the one I now suggest will be presently set up. There will be no occasion for waiting anything like the period that they waited in 1914. What I am saying there is that even though it should be necessary to close the Exchange, I would not look upon that as a particularly serious matter, because I think recovery would be fairly prompt.

I do feel, however, most certainly, that there should either be drastic control or else a closing of the Exchange to barter with the situation; and to have something short of drastic control seemed to me likely to result first in a break that will in itself be half way, at least, toward what you want to prevent, and second, in closing after all.

Now, without anything like so much holler, without anything like so much emphasis, I have expressed that view to Mr. Martin, not recently, but quite some time ago, when there was nothing at all in the air. And he told me that after I had broached the idea, he had taken the matter up again with his own Board of Governors and they had decided to stand pat upon their present plan. Having gone as far as that without any sort of official direction, I felt that I had gone as far as I ought to go, until this occasion offered.

Townsend: The securing of that kind of amendment to their regulations would have to be more in the nature of a request, as a request. There is no way to compel that action.

- Parry: It could be compelled by a certain interpretation of the Exchange Act regarding your powers to close the Exchange, which I have had one of our lawyers look into to satisfy my curiosity. The powers that you have to close the Exchange with the permission of the President seem to me and Tom to go so far that you could close it piece-meal; you could say, "There shan't be any trading in any stocks that can't sell within such and such a fraction of last night's close," or "that can't sell at or above last night's close." That would in fact
- Townsend: Assuming that the power exists, which do you think would give the better results?
- Parry: In my opinion it should be negotiated with the New York Stock Exchange as largely a voluntary matter.
- Townsend: Beforehand or after temporary closing?
- Parry: It should, I think, be part of the plans that they have already made and have on ice well in advance of the occasion.
- Townsend: You mean that the discussion with the Board of Governors should be taken up now or after
- Parry: That would be my idea.
- Townsend: Do you think it would be better to make a temporary closing and then negotiate?
- Parry: I have quite a sympathy with the view that the market should be kept open if possible. In my opinion, it could be successfully kept open under the type of control which they have in mind plus this one element that they have used before; otherwise, I think it would be necessary to close it. Again I would say to make the arrangement well in advance.
- Glasser: There is one factor I'd like to bring out in connection with the discussion: that when the stock market was closed in 1914 they had decided to keep it open, but it was only in the last few minutes, as you say, that they decided to close it. Well, the reason for it was that the stock markets in Europe

had closed and the New York market was the only available large market where people throughout the world could liquidate their securities; and they rushed into the New York market and the authorities understood that there were large selling orders which had come over from the Continent.

Now, you can't judge the effect of foreign selling from looking at our market as it is now, but you have to take into account the other available markets in the world. So that you might get - even though normally only ten percent of the transactions are foreign transactions, if the European markets close or if the Montreal markets close, you'll get a concentration in New York of all the desire to liquidate throughout the world centered at one point. And if you had partial closings, say, of only certain securities, you'd find that that drive for liquidation, which may not be important looking at the situation as a whole, but when it is concentrated will have very powerful effects - you'll find that it will shift from certain securities to other securities. If you prohibit trading or you block trading in certain securities, then the remaining securities in which trading does take place will bear the whole brunt of the liquidation movement, because the large fortunes throughout the world have diversified portfolios, and if they can't liquidate some they'll liquidate those that they can.

To apply it to the situation, now, it would seem to me that it would be much better to close the Exchange and then watch the selling orders and reopen it, rather than have these partial measures, which will - and you'll probably have to come to the extreme measure anyway, if this is the only market that's open, the only important market that's open.

Hanes: Think of anything else?

Henderson: No.

Hanes: Anything else, Herbert?

Feis: No, sir.

Hanes: Your idea is that tomorrow we will just simply say

this thing is well in hand; we'll not make any detailed report on that before the whole committee.

Feis: Except as regards the exchanges.

Hanes: Close the exchanges, if necessary.

Feis: I think if Mr. Bell or any of the Treasury people that you want and myself could have a chance perhaps tomorrow morning to review that correspondence we had with foreign governments, and see just where it stands, and start promptly these discussions again - I'd feel a little bit more comfortable if we could tie this thing up a little more definitely.

Hanes: Danny, as soon as you get that stuff out of the Secretary's file, we'll call Herbert and get him started on the discussion with the foreigners.

Bell: Do you want to do that right now or wait until after the meeting tomorrow?

Feis: To me tomorrow morning would be a good time. You'll probably want a little time to get your papers together, and I want to get the cables - our cable record out and see just where it stands.

Glasser: Are you referring to the cable that we received from the British Government? That file of cables at that time - those papers - I think I have those in Mr. White's office.

Hanes: Give them to Mr. Bell, and you and Mr. Bell and Mr. Feis and I will get together tomorrow morning.

Thomas: Mr. Secretary, before you close I'd like to bring up one other point which I believe was Have you finished with this discussion?

Hanes: I think so.

Thomas: At the meeting last spring, as I understand, there was some discussion as to action with regard to the Government security markets, and I'd simply like to restate what was done at that time.

Hanes: I can give you that in a second. I'll give you just exactly what the Federal Reserve decided at that time.

Thomas: Well, there's been a slight amendment in that which I might report.

Hanes: All right, well, I wish you would.

Thomas: You might review the ...

Hanes: I'll just review - this is what Mr. Eccles said. That was one of the questions we were considering: the condition of the Government bond market.

"The Secretary was just asking us to report with reference to what the Reserve System would be prepared to do with reference to protecting the Government bond market, and I was just reporting that the members of the Open Market Committee, the committee that has responsibility for the operations in the Government bond market, have been contacted either by telephone or in person; as a matter of fact, all but three were here; the Board and Mr. Harrison and Mr. Leach were all here, and the other three members were contacted. And I reported to them these conferences and the purposes, and we got unanimous agreement - that is, the Executive Committee, which consists of five members of the full Committee and have direct charge of the policy in the interim between the meetings of the full Committee, were authorized to purchase, that is, increase the portfolio, up to an amount of five hundred million. That, together with the hundred million which the Treasury have of Trust Funds, would make available that amount for the purpose of maintaining an orderly market.

"The idea would certainly be not to attempt in any way to peg the market or to protect the very substantial profits that the investors and banks already have as a result of their Government bond holdings. There would be no need for any selling of bonds in so far as pressure was concerned, because all of the banks, with practically no exception, have substantial excess reserves. In other words, what they lack is a place to put their funds, either investments or loans. So that any selling would not be a result of credit pressure but would merely be from a desire on their part to cash in on appreciations which they now have, with

the thought of course, likely, that they would be able to buy in cheaper. And any market operation would have to take that into account, of course. And the Committee had the thought in mind that in attempting to operate in the market it would certainly not be with the idea of guaranteeing or letting them cash in on all the profits that they have.

"At the same time, it would be necessary to avoid a complete panic in the market or to prevent the absence of a market. And I think that Mr. Harrison, the New York Bank being the agent for the Open Market Committee and carrying out operations under his direction, would be better able if anything needs to be said further with reference to the matter of handling the market."

That was - they were prepared to buy five hundred million dollars, and we were prepared to buy a hundred million from the trust funds at that time.

- Henderson: Probably got more in the trust funds now.
- Hanes: I don't know. Probably one fifty there, isn't there, Danny?
- Bell: We've got more than that, as a matter of fact; but the Secretary at that time contemplated redeeming some of the special two percents in the Postal Savings and F.D.I.C. and investing them in the market. We could go a little further than that now: probably 200 million.
- Hanes: As it stands now, if anything should happen in the market now, the agreement between ourselves and the Federal Reserve for the moment is fifty-fifty.
- Bell: For this present decline.
- Hanes: For the present situation.
- Bell: Of course, that doesn't contemplate war.
- Hanes: No.
- Now, you wanted to add something?

Thomas: In addition to that possible action by the Open Market Committee, that is, direct purchases of Governments, the Federal Reserve Banks have also agreed on some general policy as to lending to banks on Government securities to the extent to which any bank wants to borrow. It is not likely that they'll want to borrow. But the Board has prepared and submitted to the Banks the statement they want to issue at that time, for psychological effect, which is - the statement as it is now being revised reads as follows:

"A Statement to the press to be released by the Board of Governors only in event of outbreak of hostilities abroad resulting in serious disturbances in the market.

"In view of the outbreak of hostilities in Europe, the Board of Governors of the Federal Reserve System and the twelve Federal Reserve Banks announce that the Federal Reserve Banks stand ready at this time to make advances on United States Government obligations at par to all member and non-member banks at the discount rates of the respective Federal Reserve Banks. The Federal Reserve Banks are issuing statements informing the banks in their districts of this policy of the Federal Reserve System."

Now, that's probably more psychological than real, because it isn't likely that they'll have to borrow. But there has been a question in the minds of banks as to whether they can borrow at par on these Governments which they hold, and this would be a definite statement.

Hanes: It's a general release to the press saying that the banks can borrow a hundred cents on the dollar.

Thomas: Can borrow at par.

Hanes: At par.

Thomas: At par on their holdings of Governments, at the discount rate, which is now one percent in New York.

Bell: As a matter of fact, they can do that now.

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Thomas: But this is a reassuring statement; whether in case the market went down sharply they could continue to do it is something the announcement affects. That's the policy that's been adopted.

Hanes: Anything else? All right. Well, thank you ever so much.

August 23, 1939

MEMORANDUM TO THE FILES

The following persons met in the Secretary's office today at 10:15 A. M. - Herbert Feis of the State Department, Woodlief Thomas of the Federal Reserve, Judge Townsend of Justice, and Bell, Gorton, Glasser, Cairns, and Hanes of the Treasury - this being the Interdepartmental Committee on Exchange Control, etc.

The following recommendations were agreed upon to be made to the Interdepartmental Committee of the whole on Thursday afternoon at three o'clock:

1. On outbreak of hostilities, take no immediate action.
2. If conditions require action, revoke Treasury regulations of November 1934.
3. If conditions require further action, issue new Treasury regulations requiring all transactions in foreign exchange to be subject to license.
4. If conditions further require, issue the Executive Order prepared in April of 1939, or some modification thereof.

The Committee further approved Executive Order prepared by the State Department under Section 3 of the Neutrality Act, calling for control of sale of foreign government obligations, etc.

J. W. H.

Diary

August 24, 1939

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MEMORANDUM TO THE FILES

Mr. Hanes called Ronald Ransom at the Federal Reserve and was advised that he was in New York for the day. He then spoke with Ernest Draper, one of the Board members. He advised Draper that last week, at the suggestion of the President, Sumner Welles had called a group to consider taking such steps that we would have to take in case of an emergency. They had a meeting and communicated with the President and he authorized them to form under a Treasury subcommittee of this cabinet committee for determination of certain financial policies. The State Department has appointed a representative to ~~meet~~ meet with the Treasury representatives and Hanes is asking the Federal Reserve and Justice to make a four-way committee which they may augment with SEC and Commerce. Hanes asked that Draper appoint someone from the Federal Reserve. Draper asked if he wanted ~~for~~ a technician, rather than a Board member, and Mr. Hanes said, "Yes." Mr. Hanes advised him that the State Department had appointed Feis and the Treasury had appointed Danny Bell. Draper told Hanes he might wish to talk with Ransome in New York re. the representative. Hanes asked that the representative be at his office the next morning at ten o'clock. Mr. Hanes said at the last - "we want the Board to be posted so to what is going on in case we are called on to act quickly."

CE

For Secy

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August 23, 1939

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J. W. H.

August 23, 1939

Mr. Hanes

Mr. Glasser

Subject: United States Action in the Field of Foreign Exchange
During the Great War

The following represents the action which was taken by the United States in the field of foreign exchange and security markets during the Great War:

1. The New York Stock Exchange voluntarily closed on July 31, 1914. Although the sales of large blocs of stocks were thus halted, unofficial trading between individuals on Wall Street sidewalks began after a few weeks and continued until the Stock Exchange was opened on December 11. The Stock Exchange did not close in April 1917 when the United States entered the war.
2. The Treasury made available to banks during the period August to October, 1914, a large amount of emergency currency to take care of a possible panic demand for currency.
3. The Treasury called a conference of bankers and business men for the purpose of restoring the foreign exchange markets (and the commodity export trade) which had been disrupted by the outbreak of war. This conference adopted resolutions and committees were set up to work out the best means of solving the problem in cooperation with the government.
4. The Secretary of the Treasury and Federal Reserve Board approved a plan for setting up a gold fund of \$100 million; the gold was contributed by banks and trust companies and the fund was administered by a committee of bankers in New York. The establishment of this fund is supposed to have had a salutary effect on exchange although there is no information readily available as to its operations.
5. On September 7, 1917, four months after the United States entered the war the President, under authority of the Act of June 15, 1917, issued a proclamation prohibiting the exportation of coin, bullion and currency on and after the 10th of September, 1917, except under Presidential regulations.

orig. file # 84-23139

Mr. Hanes - 2

The Treasury Department initiated a series of negotiations with foreign countries for the purpose of stabilizing the exchange rates between the United States and neutral countries.

6. The United States Government permitted, by the use of its loans and credits, the support of the exchanges of Great Britain, Canada, France and Italy upon the United States exchange markets during the period we were in the war. The Treasury also effected arrangements for stabilizing the foreign exchange rates of a number of neutral countries.

7. Capital Issues Committee was created early in 1918 to pass upon proposals for the issuance of new securities to determine whether or not the issuance of such securities was compatible with public interest.

HG:lws
8/23/39

For Lady

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August 23, 1939

MEMORANDUM TO THE FILES

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J. W. H.

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: August 23, 1939

#533. DEMAND FOR SPOT DOLLARS ABATED CONSIDERABLY. AGAIN GREAT DIFFICULTY DEALING IN FORWARDS. SLIGHTLY OFFERED UNDERTONE IN SPOT FORWARD PAIRS.

#543. WHILST POSSIBILITY EXISTS HITLER MAY MAKE DRAMATIC MOVE LAST MOMENT PUBLIC OPINION HERE HARDENING SO THAT NO FURTHER CONCESSIONS APPEAR POSSIBLE FROM DEMOCRACIES. MORE MEN CALLED UP BOTH HERE AND FRANCE MAINLY SPECIALISTS. DeCASTELLANE REPORTS CONTROL RECEIVED SIZEABLE AMOUNT STERLING YESTERDAY BUT NOTHING TODAY. HE TOO CONSIDERS SITUATION EXTREMELY SERIOUS.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: August 23, 1939, 6 p.m.

No.: 1218

RUSH

FOR TREASURY FROM BUTTERWORTH.

One. Last evening after talking by telephone with the Secretary of the Treasury, I informed Sir Frederick Phillips in confidence that on August 30 Secretary Morgenthau might sail from Stockholm and not return to London for the purpose of seeing Sir John Simon, as had been planned previously. Sir Frederick said that both he and the Chancellor would regret missing Mr. Morgenthau, but that in the circumstances they would understand the desirability of any such decision. He volunteered that as for their financial outlook, there was no basic change. He said "we are just sitting tight and confirming on from day to day" - this reference to the British funds gold losses (final paragraph, telegram of August 22 No. 1213 from Embassy). Should there be a prolongation of the crisis atmosphere, we may well at some given point be faced with the intention of the British to permit a drop in the pound. In the circumstances it would be helpful if we could have in advance any thoughts you may have as to possible alternatives courses to follow. I was asked by Secretary Morgenthau to telephone him tonight; but of course over the telephone I cannot mention the above.

END SECTION ONE.

KENNEDY.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 23, 1939, midnight.

NO.: 1562

FOR THE TREASURY.

This evening I was told by Paul Reynaud that while the British Government had given him no definite statement, he had much information from London indicating that new restrictions on the export of capital from England would be introduced almost at once, when full powers shall have been received by the British Government.

Reynaud's Chef de Cabinet, Pawlewski, told me that in the immediate future the British Government had decided to devalue the pound; they had not yet decided the exact amount of devaluation, but the French had been informed that it would not be a great deal.

Reynaud told me that he did not intend to take similar measures at present, that he would watch the run of events if war should come. Should there be continuation of the return of gold to France, or if there are only slight gold losses, he would continue to try to carry on his system of a free economy as at present. On the other hand, should France start losing gold in large quantities, he would introduce restrictions at once.

There were heavy losses of gold today by the British, while some gold was gained by the French.

BULLITT.

EA:LWW

PARAPHRASE, SECTION THREE, TELEGRAM NO. 1558 of August 23, 1939, from American Embassy, Paris.

We were told today by a reliable and well-informed French financial source (who just got back from London) that he has excellent reason to believe that the British Government will lower the pound and establish a system of real control of exchange as soon as the British Parliament votes full powers. Rueff said, in regard to this report, that he did not have any information on the matter but that he would not be surprised at such action - reference, Embassy telegram No. 1488 of August 11, paragraph three.

END OF MESSAGE.

BULLITT.

EA:LWW

RE MEASURES TO PROTECT VARIOUS MARKETS
IN EVENT OF WAR IN EUROPE

August 24, 1939.
10:50 a.m.

Present: Mr. Hanes (presiding)
Mr. Bell
Mr. Gaston
Mr. Feis
Mr. Livesey

Gaston: Johnny, there's one question I want to raise with you, and I think it might be a good idea to raise it with the President. On the shipping matter we have three groups of messages. The first group is to Collectors of Customs, telling them simply to familiarize themselves with the provisions of Section 170, or Section 178, of Treasury regulations, which is the - their duty in case of war with respect to neutrality. It simply tells them to familiarize themselves with those provisions, and Huntington and I thought that we ought to send those telegrams out immediately. It isn't telling them to do anything at all, but simply to familiarize themselves with the applicable provisions of the law with respect to a war situation.

The other groups require

Bell: You've already sent one set of telegrams.

Gaston: That has no relation to a war situation. Those telegrams that we sent are telling them for the present to be quite meticulous in their examination of ships, especially in cases of abrupt departure ahead of schedule.

Feis: I suggest that even on that first notice, unless it made a very vital difference, we wait until we get over at that meeting this afternoon and ask Welles.

Hanes: On the

Feis: Even on this notification

Gaston: On this first group of telegrams, which is a group to Collectors merely telling them to "familiarize yourselves with your duty if a European war should break out, and your responsibilities are contained in Section 178 of Treasury regulations."

Hanes: Well, that hasn't already gone out.

Gaston: That has not gone out, no.

Feis: It would almost necessarily become a matter of public knowledge.

Gaston: Not necessarily, no.

Bell: They are strictly confidential.

Hanes: They are strictly confidential.

Feis: That would be the only problem. Certainly no objection otherwise.

Gaston: We could send it as we sent these other messages. We could send it in code for agents, for transmission to Collectors, where there are agents in the same city, and by air mail marked strictly confidential to the Collectors who do not have agents with them.

Feis: You see, there is every reason to suppose that the President would apply the Neutrality Act at once. I haven't heard any suggestion to the contrary. But I don't know that any one's had that really definitely from his own lips. Now, he's getting back this afternoon. I imagine we'd like to hear him say quite definitely, "Yes, no matter what else I do, I'll do that." That comes into my mind, you see.

Gaston: Yes, yes.

Feis: Now perhaps he has already told that to Welles: that he's made up his mind on that point. I wouldn't know it. I haven't seen it. I don't see the cables that pass between Welles and the President, so I wouldn't know, see? But I should think that's what you'd want to clear up before

Bell: Before this telegram goes out.

Feis: Before that went out. We could do it this afternoon, I should think.

Hanes: Herbert, you make a note: we'll ask Welles about that this afternoon.

- Gaston: Yes. The other group of telegrams require executive action before they issue.
- Hanes: Yes. That's in case he declares a national emergency.
- Gaston: That's right. Well - yes.
- Hanes: Well now, what have we got to talk about? Do we want to talk about what we're going to do with this foreign holdings of American securities?
- Bell: I went over the - last night went over the cables that were exchanged during last April with Cochran and Butterworth on this subject, and tried to set them out in brief fashion here. It took nine pages in which to do it. If you want to glance through it, just to get the general tenor of the thing
- Hanes: We might do that.
- "On outbreak of war..." - this is on 3-31 - "Upon outbreak of war British Government will requisition all foreign securities, foreign balances and gold belonging to British residents.
- "(b) British Government will not take steps to liquidate any American securities so requisitioned without prior consultation with appropriate American authorities.
- "2. British Government does not intend to declare general moratorium, but expects to close all banks and financial institutions for one day.
- "3. Bank of England would announce, probably daily, foreign exchange rates for sterling, and other banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons.
- "4. Stock exchanges will be shut. British Treasury intends to reopen them as soon as practicable, but can't set any definite period as object of shutting them is to prevent panic selling."
- Bell: Now, that's generally their policy, and that was set out in cable 428, which will be referred to hereafter.

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- Hanes: Yes.
- Bell: Now, here's the Secretary's suggestion for consultations.
- Hanes: "Asking prompt consultation directed toward protecting the security, commodity, and money markets in the event of war, and agreeing upon effective measures for that purpose, with particular regard to preventing panicky marketing and utilization of assets in markets of other countries."
- That's what the Secretary sent to
- Bell: Yes, he was asking them to protect
- Hanes: Who did that go to in London and Paris?
- Bell: Butterworth and Cochran; Butterworth to consult the British authorities and Cochran to consult the French, Belgium, Netherlands and Switzerland authorities.
- Hanes: "London. Welcomes suggestions in our 254 for consultation."
- Feis: There, if I can interrupt, I feel that in the summary you don't bring out one important point. I keep insisting on the importance of this. While London welcomes the idea of consultation directed towards protecting the security, commodity, and money markets in event of war, the Treasury completely avoided the discussion in our last phrase: "utilization of assets in markets of other countries." You'll find
- Bell: Who avoided that?
- Feis: The British Treasury. I mean Butterworth's cable there, if you've got it there
- Bell: You mean markets other than ours.
- Feis: No, no, the American market. They avoided any discussion regarding the bank deposits of British nationals and so on, which they are counting on to finance
- Hanes: They said here "... speaking informally, that matter of bank deposits and earmarked gold seemed to fall into a somewhat different category from question

regarding marketing securities;"

- Feis: Oh, you've got it. That's right.
- Hanes: That's it. "... and that in the event of war they would expect to use available dollar funds for purchasing American proclivity..." - what's that?
- Bell: I don't know what that means.
- Livesey: Just a garble; nobody bothered to correct it.
- Hanes: "... purchasing American products..."
- Bell: It follows down below - for supplies.
- Hanes: "... and as regards earmarked gold they hoped they could assume that the United States would continue to give dollars in exchange for such gold which would likewise be used for American purchases in United States." "Proclivity" would be purchases - purchases of American products.
- Gaston: They just took the adjoining word in the code book, apparently.
- Hanes: "As to American securities, they had in mind approaching American monetary authorities on this subject. They would naturally wish to obtain funds from the American securities to be taken over from British residents and that there seemed only two possible methods: (1) to sell them, and (2) to borrow against them. They prefer to borrow against them but question arose as to whether it would conflict with existing legislation. If British Government could not borrow against such securities, could a 'straw man' be used."
- Bell: That's important from here on.
- Feis: That's the important question.
- Hanes: "Advised that they were sending two copies of British Treasury financial regulations, together with forms and notices.
- "Expressed appreciation of American memorandum (#254)

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and agreed in principle to consultations. British participation conditioned as to whether bilateral exchanges were intended or a general conference. Preferred bilateral.

"British Treasury asked to be furnished any information regarding emergency measures America proposes to take.

"Re: guarantees to Poland, Greece and Rumania."

Bell: Those are the political loans which apparently are stumping the British quite a bit now, because they're coming in and asking for more all the time. I just put that

Feis: They're asking now. Britain ought to have given it to them six months ago. We won't go into that.

Bell: Just put it down there to show what they're thinking about.

Hanes: "Plan of Wasserman, President of Investment Corporation of Philadelphia, and Delaware Fund, Inc., whereby American trusts, insurance companies and banks with assistance of U. S. Government would take over British and French holdings of American securities and arrange a program of orderly disposal. British asked confirmation of this report."

Well, that was that wild thing ...

Gaston: Yes - London Times story.

Bell: They quote a long editorial from the London Times on it.

Hanes: "Reference your 428 and note with satisfaction plans for orderly liquidation of British-owned American securities and your 473 making inquiry with respect to British ability to borrow here on collateral of requisitioned American securities.

"Advised that 'It would appear to us that the dollar funds which the British Government might need during the early stages of any conflict might preferably be obtained either through the utilization of the dollar balances or through the sale of gold rather than from

immediate sale of any substantial amount of securities."

Bell: That's what the Secretary said to the British.

Feis: That would probably give us our starting point, right there.

Hanes: "If British Government adopted this course would have ample funds for their immediate needs, in which event there would be ample time, after outbreak of hostilities, in which to canvass possibility of further supplies of dollar exchange from securities.

"Informal opinion of general counsel that Johnson and Neutrality Acts prevent private sources in this country from extending credit either to the British Government directly or through medium of an agency of the British Government or a 'straw man.' These acts do not, however, prevent loans to such Government by American Government or agency thereof."

"These acts do not, however, prevent loans to such Government by American Government or agency thereof." What does that mean?

Feis: Intended to say this: if they organized an agency which took over these securities, the R.F.C. might be able to make them a loan.

Bell: Or the Export-Import Bank, if it had sufficient funds.

Feis: I prevailed on the Secretary at that time to put it merely as the informal opinion of the General Counsel. Later you'll see how this thing ...

Bell: Yes, he's asking They said in this same cable, by the way, that this was an informal opinion and it had not been concurred in by the Attorney General.

Feis: That's what I meant.

Gaston: Of course, the Johnson Act specifically exempts agencies of the United States Government from its

prohibitions.

Hanes: An agency of the United States Government could loan to a foreign government or foreign "straw man," we'll say.

Gaston: The Johnson Act has that exception, yes.

Bell: Yes. It says: "As used in this Act, the term 'person' includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise."

That's the Johnson Act.

Hanes: During the last war they organized a British dollar security exchange corporation, or whatever it was, to hold all the securities and to sell all securities for foreign nationals.

Reis: Right.

Hanes: Now, should they repeat that procedure, what this says is that an agency of this Government would not be precluded by the Johnson Act from lending that corporation or agency of the British Government money on those securities, with those securities as collateral, huh?

Gaston: There is an interesting question there as to controlling interest. Suppose we, the Government, were to organize a corporation in which it held one hundred percent of the common stock, which it bought for one dollar, or one thousand dollars, and the preferred stock were sold to private persons; would the Government there have a controlling interest in this corporation? The sale of the preferred stock would furnish the capital for the purchase or loan. Would the Government there have a controlling interest?

Bell: The preferred stock would have no voting rights?

Gaston: The preferred stock would have no voting rights.

Bell: Have all the controlling interest.

Hanes: Have all the controlling interest - one dollar bill.

Gaston: There's a possibility.

Hanes: "Advised we were willing to proceed with consultation on a bilateral basis. This can be altered subsequently if found desirable.

"We have formulated tentative plans for protection of our Government bond, security, and commodity markets. We will bend every effort to keep these markets open."

Bell: You remember, now, in one of the previous cables they asked us if we had formulated any plans, and would like to have copies of those plans. Now, that's as far as we've gone. We said we've formulated them, but we have not furnished them copies of anything.

Hanes: "London..." - no - "6. (1) Advised know nothing of Wasserman plan referred in their 489.

"London. ... Asked if Attorney General concurred in opinions of General Counsel re ability of British to borrow in American market."

Bell: They're continually interested in that as we go along, you'll find.

Hanes: "Osborne of Bank of England sailed for Canada to arrange with Canadian monetary authorities concerted measures in event of war.

"London. ... British Treasury will permit foreign balances, etc., to be withdrawn in an orderly fashion and to the extent that circumstances will permit."

Veis: Foreign balances in London.

Hanes: "Discussed balances of American subsidiary companies."

Bell: That question was asked, as to whether the American company in London making a profit would be allowed to transfer that money to America, and they said that under ordinary conditions they would.

Hanes: "Asked again if Attorney General had passed on question of British borrowing in this market against American securities and whether a plan had been worked out in Washington for such borrowings if permitted. They said if they had information on this point they could come to grips with problems and would be prepared to supply any available information necessary and desirable regarding type and distribution of such assets.

"Bank of England requests so-called outside houses"

That's - right there - it seems to me, Herbert, that might be something that we could devote some time to in trying to work out a plan which would not be contrary to our Johnson Act, in case of an emergency.

Bell: Well now, there was something done on it.

Feis: Yes, but let's not put that on the record.

(Reporter instructed not to take ensuing discussion)

Hanes: All we're doing is exploring what we can do to prevent panic conditions from upsetting and tearing our market all to pieces. That's as far as we go. The question of neutrality is something for somebody else to decide.

Gaston: Johnny, if you wanted to get this opinion from the file, I presume Cairns' office could dig it up.

Bell: McHugh is trying to complete this file. That's in the Secretary's file. He's trying to complete it with the draft of the cable.

Gaston: Cairns could undoubtedly get it.

Bell: I think I'll have that before the day is over.

Hanes: Show it to Herbert - if you haven't already seen that opinion.

Feis: I know it exists.

Bell: Here's some correspondence from Jesse Jones on the subject, but it doesn't go into it. He just refers to a plan; doesn't discuss it.

Hanes: Where was I?

Bell: At the bottom of that page - 694.

Hanes: 694.

"Bank of England requests so-called outside houses which circulate price lists of dollar bonds to discontinue this practice in view of Chancellor's request that British subjects refrain from purchasing foreign securities."

Bell: The British Chancellor on the floor of the British Parliament asked the British citizens not to purchase - make foreign purchases; and he said that that's all he intended to do, was merely ask their cooperation. And he said he thought it was being effective, but one thing that was interfering with that effectiveness was the American houses circulating dollar prices, and he asked them to stop it. I just put that in here as a matter of interest.

Hanes: "Conversations between American brokerage houses in London and Bank of England re transfer of British funds into American securities.

"British are anxious to prevent flow of sterling funds into American securities, and furthermore are desirous of taking back some British capital repatriation."

Bell: This is a London record; stops there. And now you begin with the Washington-Paris record.

Hanes: "Washington. Cable to Cochran to communicate with financial authorities of France, Belgium, Switzerland, and the Netherlands asking them to consult with America re protecting security, commodity and money markets in the event of war. (Same as cable to London #254).

"Paris. Luncheon conversation with Finance

Minister at which British plans were discussed. Finance Minister thought British plans all wrong. He proposed drastic measures for France and hoped that United States would favor his policy as against what the British were contemplating. He would like to have a round table discussion."

Bell: That's as opposed to the British bilateral, see? The British want it bilateral and the French want a round table.

Hanes: "Delivered Treasury message re consultation to French Treasury. It favored such consultation and looked upon this interview as first consultation. Said France was gaining gold and that there were no plans other than those developed last September. He favored freedom from exchange control. His plans envisage no moratorium; they would try to keep banks open without even a banking holiday for one day. He had no plans for closing stock and commodity markets. To close them would be in conflict with hopes of keeping business going.

"Cochran telephoned Janssen of Belgian National Bank, who liked idea of consultation but would have to consult Finance Minister. Later telephoned after talking with Finance Minister who in turn liked idea but he would have to consult Foreign Minister. Janssen stressed importance of keeping this matter a secret. He favored doing everything possible to avoid panic, but did not favor moratorium. Apparently all were afraid of political situation.

"Cochran also telephoned Tripp of the Netherlands Bank who liked idea of consultation, but he would have to consult his Government. He also stressed importance of keeping this matter secret.

"French Treasury confirmed previous statements and added that it very much appreciated continuing consideration and kindness of Secretary Morgenthau. It would welcome suggestions with respect to methods of procedure. It would also be glad to have consultations, especially those which would draw in the British. But all meetings and conversations should be strictly confidential.

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"Swiss said they were always ready to discuss these questions, expressing a preference for direct discussion alone rather than any round table among all members of Tripartite Agreement. Because of political situation they must be careful, and they asked for absolute secrecy.

"The Netherlands Government is gladly prepared to consult with United States on matters referred to in Secretary's message.

"Invites attention to fact that assets mentioned (bank deposits, securities, and investments) belong as far as the Netherlands is concerned to private institutions or individuals."

Bell: That's what you (Feis) told me yesterday; do you remember?

Hanes: "Earmarked gold in United States is not expected to present any difficulties. It is not expected private institutions and individuals would proceed to panicky selling of assets in United States.

"This Government does not intend to mobilize and sell these assets.

"If it becomes necessary to take measures for sale of such assets, that Government is prepared to consult with the United States.

"In their opinion it would be inadvisable to hold a conference of the members of the Tripartite Agreement.

"Belgians confirmed Janssen's personal views that such a conference is desirable, provided consideration is given to special position of that country. They would prefer conference on group basis rather than separate talks."

Bell: You see, the little countries are just scared to death, as Herbert told you yesterday. They're just scared to death of this whole situation.

Hanes: Did you see this message from Bullitt?

"This evening I was told by Paul Reynaud that while

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the British Government had given him no definite statement, he had much information from London indicating that new restrictions on the export of capital from England would be introduced almost at once, when full power shall have been received by the British Government.

"Reynaud's Chef de Cabinet, Pawlewski, told me that in the immediate future the British Government had decided to devalue the pound; they had not yet decided the exact amount of devaluation, but the French had been informed that it would not be a great deal.

"Reynaud told me that he did not intend to take similar measures at present, that he would watch the run of events if war should come. Should there be continuation of the return of gold to France, or if there are only slight gold losses, he would continue to try to carry on his system of a free economy as at present. On the other hand, should France start losing gold in large quantities, he would introduce restrictions at once.

"There were heavy losses of gold today by the British, while some gold was gained by the French."

Well, that's about the same situation as existed back there in April. The French didn't agree with the British method.

But now they say "... the British Government had decided to devalue the pound ... had not yet decided the exact amount of devaluation not be a great deal."

In the light of these cables back here, Herbert, at that time, I think we ought to start the machinery going again for some sort of a discussion with them.

Fels: Agreed.

Hanes: What is your suggestion as to the method of doing that?

Fels: My suggestion is, thinking aloud,

Hanes: Just off the record.

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Feis: No, no objection. Just thinking aloud, both for practical reasons and other reasons, we might limit our first effort to the prospective belligerents on the score that the likelihood of liquidation on their part is greater than liquidation on the part of the prospective neutrals - take it in two stages that way; and that, at any rate, in the first stage limit ourselves to this question of regular liquidation of securities, and not bring up the matter of the other assets of their nationals, although at a later point they might themselves approach us and ask if we had an enumeration of such property. But that we start in a limited field, with belligerents, to try to perfect such arrangements as might seem useful to us to protect our security markets as regards liquidation by the nationals of belligerent countries of American securities.

Bell: Would that mean more than France and Great Britain?

Hanes: No.

Feis: No, I should think not. No.

Bell: In this cable that

Feis: We could put it on the ground of mutual advantage: that if they want to liquidate these things, they want to get as good prices as possible.

Bell: In this cable that the Secretary sent in April, the first paragraph says: "The countries who are members of the Tripartite Accord and their nationals now hold in the United States over five hundred million dollars of earmarked gold, over one billion dollars of bank deposits, and over two billion dollars of American securities, and over one billion dollars of direct investments." That's three - that's four and a half billion dollars of assets.

Now, the British came back - apparently interpreted that we - they got it as applying to Great Britain - they came back and said they thought our estimates were high, that their estimate was that the British residents held one hundred fifty to two hundred million pounds sterling of American securities.

- Hanes: Well, I just got the published figures a moment ago; I've got them all written down out here. So we've got pretty accurate - I say pretty accurate; I don't know how accurate it is. It's just the Department of Commerce figures; it's all they publish - the only published record.
- Feis: I take it that we're prepared to confirm what we let arise by presumption in this earlier interchange: that as far as their earmarked gold goes, they are perfectly free to turn that into dollars any time they want.
- Hell: I think one of these cables the Secretary sent said - indicated that he would assume they would use their bank balances and their gold first.
- Feis: Yes. I should think that the first thing to do is - as a first step, although I have little doubt we'll get beyond it soon - would be to start with France and Great Britain and talk about liquidation of liquid securities; and then if we want to go on to the other forms of direct investment, so on, extend the conversation.
- Gaston: These documents - these cables give them a pretty good indication of the way our minds are running on that problem of securities. Enough for the present, I should think.
- Livesey: Of course, the French are going to be in a different position. That is, the British have it in mind to just clamp on - these become British Government securities, in effect, instead of private securities, a day or two after the hostilities start. But the French want to keep off that, so they won't be in the same position to control
- Hell: Well, there's nothing in this file to indicate what the French attitude is towards the American securities owned by Frenchmen.
- Livesey: They have a general policy of freedom; they want to let things go, just try to travel on a confidence basis.
- Feis: Use up all their gold first.

- Livesey: France will look so much stronger and safer, they hope, than any other adjoining country, and people over there will not wish to ship gold across the Atlantic. For that reason, they just let it - "laissez faire" - it will work out to their advantage, and there they'll be in this proud position, and will impose no restrictions. That would go a little against this idea of asking them to control the sales over here. I suppose, however, they might try to do what the British so naturally do: talk to the public, tell them to lay off.
- Bell: Appeal to their patriotism.
- Gaston: Isn't there an element of this also: the French may just be refusing to envisage the possibility of their being involved in war.
- Bell: Well, they have, they state in one cable, no plans.
- Fels: Probably part of the problem is that
- Hanes: It says here they have no plans today.
- Fels: In all probability there's been an extraordinary amount of tax evasion on the incomes from these American securities held by Frenchmen. That's my guess as to the chief reason why they are so much for this policy of freedom - because if the Treasury begins to find out too much about the French-owned American securities, they'll discover that half the Frenchmen in France are violating their tax laws.
- Livesey: Including Treasury officials. They had a drive over there - some Socialistic government - they were going to enforce this, were going to really collect taxes, particularly from the wealthy; and they did get on the trail of evasion through investigation in Switzerland. In fact, they got a list of names. Looking through the list of names, they found one of the elderly Inspectors of Finance, who was rated at the top of the permanent Treasury staff; his securities were on the list. So that thing just passed out - too much scandal there. That's the way they go.
- Fels: John, I've got to take a London telephone call at twelve o'clock. Now, Livesey can stay over here and

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Hanes: Do you think we ought to work up a cable?

Feis: I think the least we should do is to start with London and Paris in that limited field again.

Bell: Referring back to the previous

Feis: Or maybe you think we should do more than that. That's something I think you might want to decide. It may be that if there is a substantial enough risk of liquidation from the other members of the Tripartite Agreement, you also might want to begin discussion there.

Hanes: Well, certainly we ought to start with Great Britain and France - Great Britain right away, I'd say.

Feis: We'd have to anticipate

Gaston: Their own figures indicate that they hold the great bulk of the securities held in this country by foreigners - by the members of the Tripartite. Don't they? They speak ...

Bell: According to their figures, six, seven hundred million.

Gaston: They figure from six to eight or nine hundred million.

Bell: One fifty to two hundred million pounds; that's right.

Gaston: Let's see, what was your total figure for securities held? Two?

Bell: Two.

Livesey: For six countries.

Bell: Two billion American securities.

Gaston: The British may hold close to a billion.

Bell: Yes.

Hanes: There's the question, too, of how Canada would fit in.

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Feis: I should suspect they wouldn't liquidate at once. If they got into the war later, began to issue these big war loans, it may be they'd have to liquidate to dig up more loans. But there is the separate problem of Canada. Now, those officials were due down here when - September? - to talk over this problem.

Bell: I don't know.

Feis: You'll find the arrangements are made for officials of the Canadian Government to come down here. Probably if trouble came they would hurry their visit. That's another

Bell: Towers was here, wasn't he, last April?

Feis: Yes, but they didn't progress very far. You'll find stuff in the file. Now, I can come back by half past twelve if you want me.

Hanes: That isn't necessary. We'll keep him (Livesey) posted on what we do and he

Feis: You can do the actual drafting. We can get Just one last remark, if I may: if we go to London, I think we can anticipate in all probability they'll return to this idea of the formation of a corporation that can extend loans on the basis of those securities. I don't know whether that's been cleared with the President or not. I just don't know.

Hanes: Well, we'll try to get up something on that also, so we'll - if that question comes up, we'll have the - at least the preliminary steps done on it.

Feis: You didn't see anything in the files to show that that had been cleared with the President, huh?

Bell: Yes, it had been cleared, but it hadn't been - I believe hadn't been discussed.

Feis: The timing of that would be important, because if the President was going to do certain things as regards neutrality legislation, why, he might want to postpone anything on this until he had.

If you want me to come back at half past twelve, you can just telephone.

Hanes: I don't think we'll need you. We'll just start on it Thank you very much, Herbert.

(reis leaves)

Bell: Well, it seems to me, Johnny, that first - it may have been answered, when I get the files complete - the British want to know what the Attorney General thinks about the opinion of the General Counsel. That has not been answered. And if he agrees - and that R.F.C. can set up some straw man, well, then they probably are going to want to know that, too.

Hanes: Yes, but I don't think we should mention that in our first cable.

Bell: Just that we want to resume discussions.

Gaston: If you mention that one of the - the most formal opinion in this country is that the R.F.C. can participate in such an organization, that pretty near implies that we are willing to do that, we are willing to act in that way, and we may not want to act in that way. We may prefer that some private market organization handle it - that they can do it; and I presume there's two or three possibilities to explore. One is the possibility that a strictly private corporation could be formed of Americans which would purchase, if they could not loan. I presume the matter of lending on securities by a private corporation would probably be out; but it might be possible for that corporation to purchase, and purchases are often arranged on a repurchase agreement basis.

Bell: Or on a guaranty.

Gaston: Yes, and that perhaps would be within the law: not a loan but a purchase. That's one possibility. And the other possibility is a corporation controlled by the United States without the United States actually putting the money into it, holding the common stock so as to control the operations of the corporation, but going to the market for the money, without a guaranty on the securities which it sells, you see.

When the third thing would be the straight R.F.C.

proposition - the R.F.C. forming a corporation.

Hanes: Yes, but it seems to me all those things - it seems to me everything to do with lending money on these securities, and so forth, is a matter for future negotiation and not for preliminary negotiation, getting the thing started.

It would be my thought, if you don't disagree - if you do, say so - that we go back to that number 254 and say: "Asking prompt consultation directed toward protecting the security, commodity, and money markets in the event of war, and agreeing upon effective measures for that purpose, with particular regard to preventing panicky marketing and utilization" - well, leave out "... panicky marketing of American securities in your country."

Gaston: Yes, we can ...

Hanes: It seems to me that to start just with that shell - we're going to be led immediately into the other discussion; that we recognize; but in order to get the thing started and get them thinking, let them know that we're thinking along these lines, I think it would be important for us to start right away.

How do you (Livesey) feel about that? Do you agree with that?

Livesey: Yes. One can forecast the British quite easily. That is, they apparently are pretty much lined up on what they want to do, and they'll do it promptly. They can do it over-night - that is, reach out for these securities; and then they'd be confronted with the problem of what to do about them.

Gaston: Yes. I suppose that - I wonder if a step at this time isn't something like this: that we seek - or we assume that the British Government still stands on the - those first two paragraphs, (a) and (b) of their 428 of March 31, 1939; that is, that "the British Government on the outbreak of war intends to requisition all foreign securities, foreign balances and gold belonging to British residents, and that they will not take steps to liquidate any American securities so requisitioned without prior

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consultation with appropriate American authorities."

Livesey: That "liquidate" of course is "liquidate any American securities." They mention several items up here: foreign balances and gold; but what they're not going to liquidate is the securities. That way, it gives them a margin of time, if they proceed with both of those, and incidentally steadies the market over here because of the fact these are not coming in from England. And that almost immediately precipitates the question, how about these other countries - precipitates with the public the question.

Hanes: Who would that cable go to? That go to Butterworth?

Gaston: I should think so, wouldn't you, Dan?

Bell: Ought to follow the previous one - this way.

Hanes: Well, suppose we

Bell: I agree with Herbert that I think we ought to ask if there's been any change in the proposed plans of the British Government as outlined previously.

London (#428 - 3/31/39)

1. (a) Upon outbreak of war British Government will requisition all foreign securities, foreign balances and gold belonging to British residents.
(b) British Government will not take steps to liquidate any American securities so requisitioned without prior consultation with appropriate American authorities.
2. British Government does not intend to declare general moratorium, but expects to close all banks and financial institutions for one day.
3. Bank of England would announce, probably daily, foreign exchange rates for sterling, and other banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons.
4. Stock exchanges will be shut. British Treasury intends to reopen them as soon as practicable, but can't set any definite period as object of shutting them is to prevent panic selling.

Washington - (#254 - 4/12/39)

1. Asking prompt consultation directed toward protecting the security, commodity, and money markets in the event of war, and agreeing upon effective measures for that purpose, with particular regard to preventing panicky marketing and utilization of assets in markets of other countries.

London - (#473 - 4/13/39)

1. Welcomed suggestions in our 254 for consultation. Stated broad outlines of their immediate procedure was outlined in their 428.

2. Said, speaking informally, that matter of bank deposits and earmarked gold seemed to fall into a somewhat different category from question regarding marketing securities; and that in the event of war they would expect to use available dollar funds for purchasing American proclivity, and as regards earmarked gold they hoped they could assume that the United States would continue to give dollars in exchange for such gold which would likewise be used for American purchases in United States.
3. As to American securities, they had in mind approaching American monetary authorities on this subject. They would naturally wish to obtain funds from the American securities to be taken over from British residents and that there seemed only two possible methods: (1) to sell them, and (2) to borrow against them. They prefer to borrow against them but question arose as to whether it would conflict with existing legislation. If British Government could not borrow against such securities, could a "straw man" be used.

London (#483 - 4/14/39)

1. Advised that they were sending two copies of British Treasury financial regulations, together with forms and notices.
2. Expressed appreciation of American memorandum (#294) and agreed in principle to consultations. British participation conditioned as to whether bilateral exchanges were intended or a general conference. Preferred bilateral.
3. British Treasury asked to be furnished any information regarding emergency measures America proposes to take.
4. Ret guarantee to Poland, Greece and Rumania.

London (#489 - 4/15/39)

1. Plan of Wasserman, President of Investment Corporation of Philadelphia, and Delaware Fund, Inc., whereby American trusts, insurance companies and banks with assistance of U. S. Government would take over British and French holdings of American securities and arrange a program of orderly disposal. British asked confirmation of this report. Quotes article from London Times.

Washington (#263 - 4/16/39)

1. Reference your 425 and note with satisfaction plans for orderly liquidation of British-owned American securities and your 473 making inquiry with respect to British ability to borrow here on collateral of requisitioned American securities.

Washington (#263 - 4/16/39 (Contd.))

2. Advised that "It would appear to us that the dollar funds which the British Government might need during the early stages of any conflict might preferably be obtained either through the utilization of the dollar balances or through the sale of gold rather than from immediate sale of any substantial amount of securities." If British Government adopted this course would have ample funds for their immediate needs, in which event there would be ample time, after outbreak of hostilities, in which to canvass possibility of further supplies of dollar exchange from securities.
3. Infernal opinion of general counsel that Johnson and Neutrality Acts prevent private sources in this country from extending credit either to the British Government directly or through medium of an agency of the British Government or a "straw man." These acts do not, however, prevent loans to such Government by American Government or agency thereof.
4. Advised we were willing to proceed with consultation on a bilateral basis. This can be altered subsequently if found desirable.
5. We have formulated tentative plans for protection of our Government bond, security, and commodity markets. We will bend every effort to keep these markets open.

6. (1) Advised knew nothing of Vassarman plan referred in their
189.

London (4502-4)17/39

1. Asked if Attorney General concurred in opinions of General Council
re ability of British to borrow in American market.

London (510-4)18/39

1. Osborns of Bank of England sailed for Canada to arrange with
Canadian monetary authorities concerted measures in event of
war.

London (520-4)19/39

1. British Treasury will permit foreign balances, etc., to be with-
drawn in an orderly fashion and to the extent that circumstances
will permit. Discussed balances of American subsidiary companies.
2. Asked again if Attorney General had passed on question of British
borrowing in this market against American securities and whether
a plan had been worked out in Washington for such borrowings
if permitted. They said if they had information on this point
they would come to grips with problems and would be prepared
to supply any available information necessary and desirable
regarding type and distribution of such assets.

London (4694 - 5)16/39

Bank of England requests so-called outside houses which cir-
culate price lists of dollar bonds to discontinue this practice
in view of Chancellor's request that British subjects refrain
from purchasing foreign securities.

London (#768 - 6/2/39)

1. Conversations between American brokerage houses in London and Bank of England re transfer of British funds into American securities.
2. British are anxious to prevent flow of sterling funds into American securities, and furthermore are desirous of taking back some British capital repatriation.

Washington (#261 - 4/12/39)

Cable to Cochran to communicate with financial authorities of France, Belgium, Switzerland, and the Netherlands asking them to consult with America re protecting security, commodity and money markets in the event of war. (Same as cable to London #254).

Paris (#717 - 4/13/39)

1. Luncheon conversation with Finance Minister at which British plans were discussed. Finance Minister thought British plans all wrong. He proposed drastic measures for France and hoped that United States would favor his policy as against what the British were contemplating. He would like to have a round table discussion.

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Paris (4722 - 4/23/39)

1. Delivered Treasury message re consultation to French Treasury. It favored such consultation and looked upon this interview as first consultation. Said France was gaining gold and that there were no plans other than those developed last September. He favored freedom from exchange control. His plans envisage no moratorium; they would try to keep banks open without even a banking holiday for one day. He had no plans for closing stock and commodity markets. To close them would be in conflict with hopes of keeping business going.
2. Cochran telephoned Janssen of Belgian National Bank, who liked idea of consultation but would have to consult Finance Minister. Later telephoned after talking with Finance Minister who in turn liked idea but he would have to consult Foreign Minister. Janssen stressed importance of keeping this matter a secret. He favored doing everything possible to avoid panic, but did not favor moratorium. Apparently all were afraid of political situation.
3. Cochran also telephoned Tripp of the Netherlands Bank who liked idea of consultation, but he would have to consult his Government. He also stressed importance of keeping this matter secret.

- 2 -

Paris (#721 - 4/13/39)

French Treasury confirmed previous statements and added that it very much appreciated continuing consideration and kindness of Secretary Morgenthau. It would welcome suggestions with respect to methods of procedure. It would also be glad to have consultations, especially those which would draw in the British. But all meetings and conversations should be strictly confidential.

Paris (#727 - 4/14/39)

1. Swiss said they were always ready to discuss these questions, expressing a preference for direct discussion alone rather than any round table among all members of Tripartite Agreement. Because of political situation they must be careful, and they asked for absolute secrecy.

Paris (#743 - 4/15/39)

1. The Netherlands Government is gladly prepared to consult with United States on matters referred to in Secretary's message.
2. Invites attention to fact that assets mentioned (bank deposits, securities, and investments) belong as far as the Netherlands is concerned to private institutions or individuals.
3. Earned gold in United States is not expected to present any difficulties. It is not expected private institutions and individuals would proceed to panicky selling of assets in United States.

- 9 -

4. This Government does not intend to mobilise and sell these assets.
5. If it becomes necessary to take measures for sale of such assets, that Government is prepared to consult with the United States.
6. In their opinion it would be inadvisable to hold a conference of the members of the Tripartite Agreement.

Paris (#761 - 4/17/39)

Belgians confirmed Janssen's personal views that such a conference is desirable, provided consideration is given to special position of that country. They would prefer conference on group basis rather than separate talks.

C A B L E

290-A

From: Bankers Trust Company of N. Y.,
London Office

Date: August 24, 1939

#552

COLOSSAL DEMANDS FOR DOLLARS WHICH CONTROL SATISFIED AT
4.68-1/8. FORWARDS NOMINAL. SPOT FORWARD PARIS QUIET.

#564

DE CASTELLANE REPORTS FEELING IN PARIS VERY PESSIMISTIC.
SPITZER BELIEVES POLES REACTION TO OCCUPATION DANZIG BY
GERMANS WILL BE VIOLENCE. REPORTED GERMAN EMBASSY WARSAW
REMOVING ARCHIVES. INFORMANT RECENTLY RETURNED FROM ITALY
CONFIRMED NO SPECIAL WAR PREPARATION MADE THERE BUT PEOPLE
MUCH MORE WORRIED THAN LAST SEPTEMBER. TONE ANTI-FRENCH
PROPAGANDA CHANGED AND BECAME MORE GENERAL. EXCHANGE
RECEIVED MODERATE AMOUNTS DOLLARS BOURSE WEAK WITH NO
BUSINESS. DE CASTELLANE ENDORSES PESSIMISM BUT STILL
BELIEVES WAR CAN BE AVOIDED.

CONFIDENTIAL

700-B

PAP

TELEGRAM SENT

GRAY

August 24, 1939

7 p.m.

AMEMB/337

LONDON (ENGLAND)

686

FOR BITTERSORTH PROV ACTING SECRETARY OF THE TREASURY
Your 1237, August 24.

1. In view of the fact that the British Government appears to have taken its decision, there appears to be no use for us to make comment except to say that we find the notice given extremely short, making discussion impossible.

2. In this cable Phillips is cited as saying that foreign balances were not far off the 1931 level. We would welcome more detailed information on this point.

Please keep Treasury informed as to efforts being made by British Government to safeguard against severe break in sterling.

HULL
(HF)

EA:HF:EB

PAP

TELEGRAM SENT

GRAY

August 24, 1939

8 p.m.

AMEMB - 337

LONDON (ENGLAND)

FOR BUTTERWORTHS FROM ACTING SECRETARY OF THE TREASURY
687

I am glad to note Phillips' reaffirmation in your 1237 of August 24 of intention of following through with plans regarding mobilization of securities, of which you informed the Treasury on March 31 (your no. 428). I have reference particularly to the details given in numbered paragraphs 1 and 2.

For your information, this matter has been under close scrutiny here, and you are requested to follow it very closely and to make sure that we know of the time schedule the British will follow and details as they develop.

HULL
(HF)

EA:HF:EB

CJ

PLAIN

LONDON

Dated August 24, 1939

Rec'd 10:16 a.m.

Secretary of State,

Washington.

RUSH.

1230, August 24, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

Dealings on the stock exchange very few and far between and although minimum prices have not been put on common stocks, the tactics of the jobbers have paralyzed the market. But such selling orders that brokers receive are not numerous and come mainly from abroad because domestic holders see no alternative profitable employment of funds in the event of war. With the rise in the bank rate swap transactions and forward market remain virtually strangled; but the British Fund continues to supply spot dollars at the pegged note.

The City is naturally bewildered and despairing at the speed and turn of events. Its mood at the moment is to see no alternative to fighting regardless of the character or condition of the so-called peace front. An incident may serve to paint the emotional picture: a lieutenant in the guards' scarlet uniform happened to pass through the City in

an

290-E

-2- #1230, August 24, 4 p.m., from London

an automobile. Crowds gathered from nowhere and he was cheered to the echo by top-hatted senior partners and messengers alike. How long this mood will last remains to be seen. But at any rate it is well to doubt that it is shared by those who hold the political power of decision.

KENNEDY

ALC

200-F

MA

GRAY

London

Dated August 24, 1939

Rec'd

Secretary of State

Washington

RUSH

1257, August 24, 7 p.m.

FOR THE ACTING SECRETARY OF THE TREASURY FROM BUTTERWORTH
STRICTLY CONFIDENTIAL FOR IMMEDIATE DELIVERY.

Sir Frederick Phillips sent ~~For~~ me this afternoon.

He said that the mounting European crisis was producing an increasing drain on their gold resources and the rate of increase was very alarming. Last week they had lost thirty million pounds (sterling) and in the first three days of this week thirty five (#) pounds (sterling). They had been hanging on "from day to day" and after raising the bank rate this morning they had reluctantly come to the conclusion that they must adopt one of two courses to conserve their gold resources; either put on exchange control or let sterling depreciate. They had decided not to adopt the former course principally because if the crisis should pass many months would ensue or perhaps as long as a year before they could remove the controls but if they let sterling depreciate, if the political crisis should pass they were convinced sterling would

MA -2- tel 1237, August 24, 7 p.m. from London

would rapidly rebound to near the current level. Philippe went on to say that their best information was that foreign balances were not far off the 1931 level and that they would use every suitable means to hinder speculation by making sterling difficult to get. He added that the usual order had been given to New York to carry on to the close of the American market but that when London opened tomorrow the British fund would stay out of the market and let sterling find its own level. I asked him whether he and his associates were fully convinced that a depreciation of sterling at the present time would hinder rather than foster the exodus and he said that given the fact that the crisis might be prolonged and the pace at which the gold losses was increasing they felt it was the only thing that they could do. I pressed him about the Prime Minister's statement in the House of Commons this afternoon which I am sending separately and after some questioning he stated that Chamberlain's statement was the first step towards inducing British firms with abnormally large balances to repatriate them. I asked him to what level he expected sterling to depreciate and how long the British fund proposed to stay out of the market. He said that they would stay out until sterling found a new level which would certainly take a day or two and that it was difficult to prejudge what rate it would be since political events were moving so fast, but he implied that he did not expect the depreciation to
be drastic.

MA -3- tel 1237, August 24, 7 p.m. from London

be drastic. I asked Phillips what was his estimate of the amount of British capital that was seeking refuge abroad and he said that the British monetary authorities were convinced that even in recent days 9/10 of the exodus represented foreign funds.

Phillips also added that in the event of war the British Treasury proposed to adhere to the plans which I sent to Mr Morgenthau some months ago.

cep [] 14
1939

Phillips emphasized the confidential character of this message and the fact that he was sorry that such short notice was being given but they had been hanging on from day to day and the decision had only just been made. He asked that this be kept strictly confidential and added that the French were not being told until 8 o'clock tonight to minimize chances of leaks.

KENNEDY

KLP

CJ

GRAY

LONDON

Dated August 24, 1939

Rec'd 2:20 p.m.

Secretary of State,
Washington.

RUSH.

1238, August 24, 7 p.m.

FOR IMMEDIATE AND PERSONAL DELIVERY TO THE ACTING
SECRETARY OF THE TREASURY.

The following information was obtained on the understanding that it would only be received by you and the Secretary and would be treated in the strictest confidence. In the course of my conversation with Phillips, reported in my 1237, August 24, 6 p.m., I pressed strongly for information regarding the actual state of the British equalization fund. Phillips said that counting the forward losses there now remained in the fund about pounds 180 million of gold. If this be added to the pounds 246 million in the Bank of England the aggregate gold resources amounted to pounds 400½ million as compared with about pounds 590,000,000 at the end of March (see my No. 920, June 30, 7 p.m.). In supplying these figures Phillips took pains to emphasize that at the moment it was the pace that was killing.

KENNEDY

KLP

CJ

PLAIN

LONDON

Dated August 24, 1939

Rec'd 2:25 p.m.

Secretary of State,
Washington.

1239, August 24, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of his speech in the House of Commons this afternoon the Prime Minister, after referring to the rise in the bank rate, said that there is in this connection a contribution to be made by British citizens generally, that the public can best cooperate by reducing as far as possible any demands directly or indirectly for the purchase of foreign exchange; next by scrupulously observing the Chancellor's request that capital should not at present be sent or moved out of the country and finally, by holding no more foreign assets than are strictly required for the normal purposes of business.

KENNEDY

ALC

MA

GRAY

Paris

Dated August 24, 1939

Rec'd 1:05 p.m.

Secretary of State

Washington

1566, August 24, 1 p.m.

FOR THE TREASURY.

While the market atmosphere this morning is one of extreme pessimism on the chances of averting war there is nothing approaching panic and France remains calm and determined. The banks report increasing demand both for French bank notes and for American dollar currency and while the franc is under slight pressure there is as yet no approach to conditions similar to those during the September crisis last year. Sterling is quoted at 176.72. The florin is strong.

BULLITT

WVC:PEC

FEDERAL RESERVE BANK
OF NEW YORK

58(a)
293

OFFICE CORRESPONDENCE

DATE August 24, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

Mr. Hawker called me at 6:05 p.m. He had a bit of news for me, a bit of a shock, he said: I knew how heavy their losses had been for the past week or more, also that the international situation had gotten very much worse, so that obviously there was every need for them to conserve their national reserves. Consequently, they had decided that they couldn't stand the present pace and so tomorrow morning they would be out of the market and let sterling depreciate. When they would come back and support he could not say at the moment but the above was the decision finally taken.

I replied that our Treasury had been notified of that step in the afternoon and that they, in turn, had advised me. Hawker replied he guessed that much but nevertheless felt that he should let me know as it seemed all wrong that the central banks should not advise each other.

What did I think the effect would be on the market and what would be the reaction of our Treasury? What did I personally think? As to the Treasury's reaction, I stated, I could not, of course, answer. As regards the New York market, it would naturally be a terrific shock although people had more and more generally figured in recent weeks that something was bound to happen. As to my personal feeling in the matter, I felt that restrictions as a first step would have been less of a shock to the public here. That was what I would really have expected though fully aware of the fact that restrictions would not

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE August 24, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knote

2

be very effective in the long run. Nevertheless, I would have thought that, considering the great tension in the international atmosphere, they would have considered it preferable to carry on with restrictions at least until the crash had come (if there was to be a crash) rather than risk giving Hitler a chance to use this development as a further inducement to stand pat. All this was, of course, my personal opinion, for which he had asked me; naturally I had not had a chance even to discuss it with anybody. Hawker replied that all this had been considered by them at great length and that the above decision had been taken after most careful deliberation. The difficulty with restrictions was that they could not readily be taken off again once imposed. On the other hand, if after a break in sterling the storm should blow over, they were convinced that sterling would recover in a hurry. I asked him whether he would venture a guess as to how far sterling might go but Hawker said he had no idea.

He had no other news for me except that the sailings of two Italian boats had been cancelled. On the other hand, the Europa was on its way to Southampton and the Bremen to New York.

LWK:KW

August 24, 1939.
2:50 P.M.

H.M.Jr: I have no special but I just - ah - things seem to be getting hotter and hotter.....

Hanes: Yes.

H.M.Jr:and I wondered what you knew.

Hanes: Well, now first of all I think I better tell you - have you gotten my cablegram about your plane.

H.M.Jr: Ah - no, it came in a little while ago and he's decoding it now.

Hanes: All right, well I'll tell you hastily - ah - the CAMPBELL is two days out of Colb Island.

H.M.Jr: Yes.

Hanes: She could get there and pick you up Sunday - if you wanted to come back on the CAMPBELL.

H.M.Jr: Well can I go to Oslo also?

Hanes: Well yes you can go to - ah - let me see - I've got the distance here from Bergen - how far are you from Bergen, Norway?

H.M.Jr: Well we're not - it's better to go to Bergen - yes, I meant Bergen.

Hanes: Well Bergen - he's four days and four hours from Bergen.

H.M.Jr: Well did you get a clearance from the White House?

Hanes: I haven't yet. The President didn't get in until two o'clock to-day; he's just gotten back from his fishing trip.....

H.M.Jr: I see.

Hanes:and he just came in a few minutes before two o'clock to-day and I've got the State Department all right; that is all cleared but I haven't had a chance to get to the White House.

- 2 -

H.M.Jr: Well it will take them that - it will take them long enough to get there anyway.

Hanes: It will take them what?

H.M.Jr: Why don't you have him head for Bergen?

Hanes: Yes, all right.

H.M.Jr: And I'm sure the President will see that side.

Hanes: Yes, well, Henry, he's - he's only 1300 miles from Colb. I thought you wanted to get back here quickly, if you were talking about coming by plane.

H.M.Jr: Well I can't get from Bergen over unless I get the cutter to Bergen.

Hanes: I see.

H.M.Jr: It's all very unsettled but I want to take care of the family first.

Hanes: That's right. All right, well now Henry. On the plane business I've got two seats for you leaving Marseille at 8 o'clock Monday morning.

H.M.Jr: On Monday.

Hanes: Yeah.

H.M.Jr: I see.

Hanes: And that goes from Marseille down by the Azores and Bermuda.....

H.M.Jr: I see.

Hanes:and I - I - they want to know as quickly as we can give them an answer as to whether or not you want that - ah - those two seats.

H.M.Jr: Well I'll let them ^{know} that I'd only come if war broke out.

Hanes: Well in case - if war broke out I don't know if you'd be able to come or not.

- 3 -

H.M.Jr: I don't think it would be very good to go from there.

Hanes: I don't think so - I don't like Marseille.

H.M.Jr: No, I'd cancel that and thank them and say no.

Hanes: All right, fine.

H.M.Jr: That will take care of that.

Hanes: Yes, well then you won't have to answer the cable - I'll just cancel it.

H.M.Jr: Right.

Hanes: Now then we'll order the CAMPBELL to proceed to Bergen.

H.M.Jr: Yes.

Hanes: She'll arrive there on Monday, Henry.

H.M.Jr: Well I can just - who will - what will arrive there Monday - the Bergen?

Hanes: The CAMPBELL.

H.M.Jr: The CAMPBELL.

Hanes: CAMPBELL will arrive in Bergen on Monday.

H.M.Jr: Hello

Hanes: Hello.

H.M.Jr: I can hear you fine, Johnny.

Hanes: What's that?

H.M.Jr: I hear you all right.

Hanes: All right, I say the CAMPBELL will arrive in Bergen on Monday morning.

H.M.Jr: Well in the meantime you can - ah...

Hanes: I'll get the clearance.

H.M.Jr: I'd tell - I would just tell General Watson what we're doing.

Hanes: That's right - that's just what I planned to do this afternoon.

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

Hanes: Now everything else - there's not a thing else here that I think that you need to worry about; markets, of course, have been jittery.....

H.M.Jr: Yes.

Hanes:but they've been very orderly. Our bond market - the government bond market has been fairly weak but it's not as weak as - I mean we've had a break of one and a half points to-day but it's been a very orderly break.

H.M.Jr: I see.

Hanes: And things are, I think, in pretty good shape all around; I don't think there's anything for you to worry about other than getting yourself home.

H.M.Jr: Well, as I say, I want to take care of the family first and then see when I can come in but I wouldn't want to go down to Marseille.

Hanes: No, all right fine - well that's the - it was impossible to get on the plane leaving Southampton on Wednesday.

H.M.Jr: Well let's try for that one next.

Hanes: The Southampton Wednesday?

H.M.Jr: Yes.

Hanes: I've asked him to save - to catch the first cancellation and hold it for us.

H.M.Jr: All right, now as long as I've got you on the wire, do you want to ask me anything?

Hanes: Wait just a minute. (Aside to group: Do you want to ask him anything?) I don't believe there's a single thing Henry; we're all in good shape here; Danny says he wants to talk to you just for a second.

H.M.Jr: Well I've got plenty of time.

Hanes: Danny was just talking about conferences that we've been holding here for the last week over at the State Department that has to do with the general subjects - financial subjects - all of which we covered last spring pretty thoroughly and we've just been renewing those conferences and holding another one this afternoon with Welles' office.

H.M.Jr: On what....

Hanes: That's just on the financial picture - overall picture.

H.M.Jr: I see.

Hanes: Just like the ones we held last spring, you remember?

H.M.Jr: And they'll be held in my office ?

Hanes: That's right.

H.M.Jr: Well who all was over at Welles' office?

Hanes: That's State, War and Navy, Treasury and Justice.

H.M.Jr: I see. I see. And who goes over there from our place?

Hanes: Danny and Herbert and myself.

H.M.Jr: You all went over?

Hanes: Yes. sir.

H.M.Jr: I see.

Hanes: So we've got it all in good shape, I think. I believe everything is moving along smoothly.

H.M.Jr: Now what else do you know?

Hanes: Well I don't know anything else other than what you see in the papers and the dispatches that we've been sending you; the thing has looked very bad.

H.M.Jr: Yes.

Hanes: We don't know anything more than the dispatches that we've been sending to you and I guess you've been getting those right along, haven't you?

H.M.Jr: Yes, they come along in fine shape.

Hanes: Yes. Well there's nothing new, we don't know anything more. That - that treaty that was signed between Russia and Germany, of course, wasn't any good news from that.

H.M.Jr: No. How are you betting, Johnny, on war?

Hanes: Well the betting here is two to one on.

H.M.Jr: Two to one what?

Hanes: On - on.

H.M.Jr: On.

Hanes: Yes.

H.M.Jr: I see. I see.

Hanes: We are not making any commitments on the September financing and we're not going to; we're just going to bide our time and watch until next Friday.

H.M.Jr: When is the deadline?

Hanes: The deadline is Tuesday - that's the day after Labor Day.

H.M.Jr: Well when would - oh, you wouldn't make the announcement until when?

Hanes: We'd make that on Thursday

H.M.Jr: Of this week?

Hanes: No, it would be Thursday, the 7th.

H.M.Jr: Oh we've got lots of time.

Hanes: Yes.

H.M.Jr: I mean you don't make the public announcement until the 7th?

Hanes: That's right.

H.M.Jr: Oh my heavens.

Hanes: So we've got plenty of time and we're not doing anything about that except sitting tight for the moment.

H.M.Jr: All right, well then, Johnny, you tell Coast Guard to shove the boat towards Bergen, see?

Hanes: All right.

H.M.Jr: And I would just tell - I'd simply tell Pa Watson what we're going to do and I'm sure there won't be any trouble.

Hanes: All right now fine. Wait just a minute - Herbert wants to say a word to you.

H.M.Jr: All right.

Gaston: Hello Henry.

H.M.Jr: Hello Herbert.

Gaston: How's the family?

H.M.Jr: We're all tiptop.

Gaston: That's fine. Just after you left, I put that thing about the cutter up to Pa Watson thru Kannee and I got word back that Pa Watson said he would not talk to the President about it; that we should decide it for ourselves.

H.M.Jr: Well then why bother the President?

Gaston: So I don't think there's really any real necessity for taking it up with him at all again.

H.M.Jr: Well then I wouldn't do it.

Gaston: All right. The only thing at all new to-day is that the President sent to King Victor Emanuel an appeal - of Italy - asking him to use his influence for peace.

H.M.Jr: I see.

Gaston: Hitler is back in Berlin.

H.M.Jr: I see.

Gaston: Are you able to get the news from the Swedish papers?

H.M.Jr: Yes I get it from there and Butterworth telephones me every night and so does Heath from Berlin.

Gaston: Yes. Should we give you more than we're giving you?

H.M.Jr: Give me all you can in the cables.

Gaston: All right, anything else?

H.M.Jr: But I'd like to know more about what they say and what the State Department think.

Gaston: Yes. All right, we'll give you that in code and the other open.

H.M.Jr: You told Pa Watson after I left about this cutter, did you?

Gaston: I did. I told it to Kannee because Pa Watson was away that day - at that time - Kannee called me later in the day; said I talked to Pa Watson - Pa Watson says he will not put that up to the President; that's something you should decide for yourselves - do as you see fit; I will tear up my memorandum and you forget that you called me. That meant to me that he'd taken it up with full authority.

H.M.Jr: Well my own impression would be - if I was there - I wouldn't bother the President.

Gaston: I think you're right.

H.M.Jr: What?

Gaston: I think you're right; I think we shouldn't bother them again.

H.M.Jr: Does Johnny agree?

Gaston: Johnny agrees.

H.M.Jr: Am I on the loud speaker?

Gaston: You are.

H.M.Jr: Well that's good.

Gaston: Yes.

H.M.Jr: Now - ah - then I wouldn't bother him.

Gaston: All right, here's Johnny he wants to talk to you again.

Hanes: Henry, I was just going to walk by the White House and just say hello to Pa Watson who has just gotten back and then I was going to mention to him casually that we are going ahead with these instructions for them to go up there and get you, you see? Just as a matter of course - not make any point of it at all.

H.M.Jr: That's all right. Now I'm not at all sure that I'll use her, you see?

Hanes: Oh yes, sure, I see.

H.M.Jr: I simply feel if she was within a day or so out there it would be an ace in the hole.

Hanes: That's right - that's right. Well we'll keep you posted by cable also of her whereabouts and she'll notify you when she gets within striking distance of Bergen.

H.M.Jr: Hello.

Hanes: Yes.

H.M.Jr: I don't know whether they have the news there
but the is closed.

Hanes: Yes, we have that information.

H.M.Jr: I've had that for three days now and also they're
English submarines east of Denmark on the other
side.

Hanes: Yes.

H.M.Jr: Did you know that?

Hanes: No I didn't know that.

H.M.Jr: And - there's a rumor here tonight which has not
been confirmed that the parley between Sweden and
Germany has been cancelled - no more communications.

Hanes: Is that so.

H.M.Jr: That's what a newspaperman told me here but I don't
know what - he said it was just a rumor.

Hanes: Yes, well now if there's anything at all develops
here we'll send you this week-end but don't
worry about anything here unless we get word over
this side - we're not.

H.M.Jr: All right, well I'll tell you - I'll call you again
tomorrow. Are you going to be there tomorrow evening?

Hanes: Yes sir.

H.M.Jr: You're going to stay on deck, aren't you?

Hanes: Right - all the time - they can get me - the operator
has my number all the time.

H.M.Jr: Well I mean are you going to stay in Washington
tomorrow?

Hanes: Yes sir, I'll be here right straight on thru. I
don't think I'm going to leave this week-end at all
the way it looks now.

H.M.Jr: Well I'd feel better if you didn't, Johnny.

Hanes: Well don't worry I won't. If there's any reason in the world why I should stay here I'll be here.

H.M.Jr: Well I'll put in a call when I get to Oslo tomorrow.

Hanes: All right, fine.

H.M.Jr: I'll call you when I get to Oslo.

Hanes: All right, fine. Your operator here will know where I am all the time if I'm in - I mean I'll be in Washington but if I'm not in the Treasury she'll know where I am.

H.M.Jr: I think the way the things are it would be better if you stayed in Washington over the week-end.

Hanes: Well I'll do that.

H.M.Jr: Yes.

Hanes: Now wait a minute Herbert wants to say a word to you.

Gaston: If you approve, we'll order the CAMPBELL to-day to proceed full speed for Bergen.

H.M.Jr: That's right.

Gaston: O.K.

H.M.Jr: As long as Danny's there let me say hello.

Gaston: Yep.

Bell: Hello

H.M.Jr: Hello Dan.

Bell: It's nice to hear your voice.

H.M.Jr: How are you?

Bell: Pretty good. A little jittery but then we're all well - on the job.

H.M.Jr: Will it be a long or a short or a medium one?

BeLL: (Laughs) Well I guess we'll have to call it a medium.

H.M.Jr: You'll have to call it a medium.

Bell: Yes. As Johnny told you the market has steadily gone down but they considered in New York that it is orderly. The dealers have been on the job constantly watching it and discouraging selling.

H.M.Jr: Is Eccles involved?

Bell: What's that?

H.M.Jr: Is Eccles in town?

Bell: No he's out of town but Ransom and his crew have been to New York two days this week.....

H.M.Jr: Ah-ha.

Bell:and they are in close touch with it as we are with them and we have an agreement that if we go in at this time it will be a 50-50 but on a rather small scale, taking care of the small fellows and not the big ones but the big people - the big banks are not selling and they say that if there's any chance of the thing leveling out there's a lot of money that's just waiting to come in for bargains so that if this thing clears up you can expect the market to go back up with a whoop, I think.

H.M.Jr: Well I wish I was back there and could help.

Bell: Well we wish you were here too but don't worry about it.

H.M.Jr: All right.

Bell: O.K. Bye-bye

August 24, 1939.
4:12 P.M.

307

John
Hanes: Hello
Arohie
Lochhead: Yes Johnny.

H: Arohie?
L: Yes.
H: You're familiar with this twelve thirty-seven.
L: That's right.
H: Frank Dietrich told me he'd mail it to you.
L: That's right.
H: Have you got any comment now, we're just sitting here, Herbert Gaston and Danny Bell, Frank Dietrich and myself, we've just been over this cable and it reads to us as though this is information -
L: Yes, in other words they're -
H: It's an accomplished fact.
L: - any questions they're telling us the facts.
H: Yes, I say it's an accomplished fact and they're simply saying to us this is what we're going to do.
L: That's right.
H: Now clearly, should we make any answer or should we tell Butterworth we have no comment to make. We regret this move of course but we have no further comment to make.
L: I think that's the safest thing because of course it's water over the dam. I'm terribly sorry they didn't try to use exchange control but that - it's too late, I mean they're not going to - they've made up their minds.
H: Yes.
L: The only thing I - the thing that I'm thinking about is that tomorrow we're going to be asked about the tripartite agreement. In other words they haven't mentioned that but that's the important thing.
H: Yes.

- L: Is the tripartite agreement still in effect. Now my personal feeling is that we shouldn't let the tripartite slip out just now.
- H: Well, that's what we all feel.
- L: Yes. I mean in other words we could take the attitude that this is an exceptional time just now and we're reviewing the situation. In the meantime the tripartite will continue.
- H: Yes.
- L: But I'm just thinking ahead about what's going to happen tomorrow.
- H: Yes.
- L: Because there's nothing firm about it - there's no doubt, I mean they've actually made their decision on it, and nothing we're going to say is going to change it.
- H: Yes.
- L: But I think that we should just simply tell Butterworth that we regret very much the decision and not make any more comment on it.
- H: Yes. That - I think that jibes with everybody's opinion here too, Archie.
- L: Yes, and I checked here. I talked it over with Governor Harrison.
- H: Yes.
- L: And he feels that there's nothing - I mean it's just a statement, he said the same thing. He said that's the safest.
- H: Yes.
- L: Of course it's - I don't say it takes us altogether by surprise except, frankly, I thought that they'd use exchange control, even if they also let exchange drop.
- H: Yes.
- L: But they're not going to be able to sway them, of course they've got - it's a very realistic viewpoint

they've taken of it, that if the thing goes back, the prices come back, they'll let sterling run back. Now that's going to be a question how they live up to it.

H: Yes.

L: But there's nothing certain that I can see that we can do. We can't tell them you can't do it.

H: No.

L: And we certainly can't trust them. I don't think we can trust that that's the end of the tripartite, because I think that some -

H: I'll

L: - the State Department's viewpoint or general viewpoint that was the last thing in the world we want to shake.

H: That's right.

L: So I think we, it looks to me as if we're going to have to swallow something, for a short time at least.

H: Yes. All right Archie, I just wanted to check with you and make sure that we all felt alike about it.

L: Yes. So I've been studying over here. Of course tomorrow the exchange is going to drop out. The fund is not going to be in the market on the exchange on sterling. I don't know yet what France will do, whether France - of course they said that what they're going to do is to watch it a little while.

H: Yes.

L: I presume that's probably about the only way we can do is also watch it slightly. But on the other hand I didn't know but what, whether you thought it better that I come on down tonight rather than staying here.

H: Well I don't know Arch, I don't know whether it's - I leave that to you. I think as long as you're there, we're all in close touch anyway, maybe it might be a good idea to have somebody there in New York.

L: Well, I think I'll leave -

H: I'm just thinking out loud now.

L: Yes. Well, here's the way - of course it's this way here. I don't know the way the newspapers play up, whether or not I'd be more vulnerable if I was down there or not, but on the other hand if there's any it'd be better for me. You see I can just take the train right down.

H: Wait a minute.

Archie?

L: Yes.

H: Herbert Gaston says put on false whiskers and come on down.

L: All right. Well, I'll tell the absolute truth. I feel that I might be all right up here but if something came up it might be a little difficult if I'm not down in Washington.

H: All right. Fine. Come on.

L: O. K. I'll be down with a full set.

H: Thank you very much.

L: O. K.

H: Goodbye.

L: Goodbye.

Aug. 24, 1939.
4:22 P.M.

311

John
Hanes:
Herbert
Fels:

Herbert?

Yes.

H: How are you?

F: I'm fine. Who is it?

H: John Hanes.

F: Hello John.

H: Herbert, we've just been studying over this cable
No. 1237.

F: Right.

H: From Butterworth.

F: Right.

H: And this is an accomplished fact. They're just
notifying us of something that they have already
made up their minds to do.

F: Practically.

H: And the market will be open there in another six
hours. So I don't see that there's anything that
we can do except just say to Butterworth no comment.
We're sorry that they've taken this step without
consulting the tripartite.

F: Well, I think - I wouldn't say we're sorry - I'm
firmly convinced John that they've got to do it.

H: Yes.

F: Every report we get here -

H: Well I think we are too.

F: And I think it's in a sense wise that they should
do it.

H: Yes.

F: I think - I suggest we avoid the words that they're
sorry and really say that's it damned short notice.

H: (laughs)

- 2 -

F: Might have expected -
H: Yes.
F: Longer notice.
H: Yes. Well, will you take - will you send the message back through to Butterworth?
F: Suppose I do this. Suppose I ask Livesy to try his hand at a draft and read it back. Who do you want him to read it back to, yourself?
H: Yes, will you?
F: Yes.
H: All right.
F: All right, we'll have it within a half hour.
H: Thank you.
F: Right.

For Secy

August 24, 1939.

313

MEMORANDUM TO THE FILES:

Have notified Pa Watson. No change in the plans on the Campbell. Could not give final decision because we had not yet heard from the other side as to ultimate plans.

On Saturday, August 26th, after talking with the Secretary on long distance, I called the White House to get Watson and found him out to luncheon. Finally reached him while he was having luncheon at the Carlton Hotel. I notified him that there was some further change in plans - the Secretary would sail from Bergen, Norway, Monday afternoon, August 28th, that the Campbell would probably arrive off the northern coast either Friday or Saturday, September first or second, that we would pick him up by plane and bring him immediately to Washington.

JWH:ce

For Secy

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August 24, 1939

MEMORANDUM FOR THE PRESIDENT

With further reference to my memorandum to you dated August 22d, in answer to your memorandum of August 11th, I have received from the Chief of the Intelligence Unit, through Commissioner Halvering, a report on Mr. Allan D. Jones of Newport News, Virginia, who is recommended by Governor Price and Mr. R. Walton Moore for Collector of Internal Revenue at Richmond, Virginia. The following is quoted from summary of report by the Commissioner:

"The investigation made by the Special Agent indicates that Mr. Jones is a man of considerable ability and that he is well regarded in the community in which he has resided for approximately 33 years. He has been employed by the United States Government for the past 6 years in a legal and administrative capacity and it is believed that he has the necessary qualifications for the position as Collector of Internal Revenue."

Acting Secretary

8-24-1939
5:30 P.M. L. L. White
FILE NO 278
COPY 70

314-A

PAP

GRAY

LONDON

Dated August 25, 1939

Rec'd 1:05 p.m.

Secretary of State

Washington

RUSH

1248, August 25, 2 p.m.

FOR IMMEDIATE DELIVERY TO THE ACTING SECRETARY OF THE
TREASURY.

I took up the matters mentioned in your 686 and 687 of August 24 with Phillips and characterized your comments as constituting an ad interim reply. On the point of the shortness of time I had yesterday represented strongly this consideration to him and today he again reiterated the pressing nature of the situation and gave me his word that the decision had not been reached until yesterday. He went on to point out how rapidly the gold losses of the British fund were rising and how they had leaped up from say pounds 7 (*) per day towards the end of last week to pounds 16,000,000 yesterday. He emphasized "that it is the pace that kills". He also referred to the nature of the French reply about which I have also cabled.

As regards his reference that foreign balances were not far off the 1931 level he said that their computations

indicated

PAP -2- 1248, August 25, 2 p.m. from London

indicated that a couple of days ago they were within pounds 80,000,000 of the low of 1931. This computation included "all sorts of assets" and therefore was admittedly subject to considerable error. As you know and as I have reported previously Philipps is always sceptical about the foreign capital figures which the Bank of England is able to get and compute. He also showed me in strict confidence the diagram supplied him by the Bank of England of the trend of all foreign deposits in London (which also contains ascertainable foreign holdings of British Government securities). These show a grand total of pounds 475,000,000 on January 1, 1938, pounds 512,000,000 on January 1, 1939 and less than pounds 400,000,000 at the end of May. Incidentally in January 1938 the French figure was about 100,000,000, the composite Belgian, Dutch and Swiss figure pounds 75,000,000 and the rest of Europe pounds 90,000,000. At the end of April the French began to go down heavily, soon after followed by the Belgian, Dutch and Swiss and towards the end of the summer the rest of Europe followed. In January 1939 the French stood at pounds 65,000,000, Belgian, Dutch and Swiss under pounds 50,000,000 and the rest of Europe pounds 70,000,000. Until this summer the Belgian, Dutch and Swiss was rather stable but the French and the rest of Europe

continued

PAP -3- 1248, August 25, 2 p.m. from London

continued downward. I promised that these figures would be treated in a special and thoroughly confidential manner.

As regards the British plans in the event of war for purposes ^(of?) for clarity I read to Philipps paragraphs numbered one and two of my telegram No. 428, March 31, 6 p.m., and he confirmed that they accurately represented the situation. In this connection may I make a suggestion that if and when Great Britain goes to war we immediately take steps definitely to ascertain the British Treasury's intentions. Naturally our position would be stronger if we prohibited the import of gold, as did Sweden in the last war, except under license.

Philipps confirmed that they were definitely staying out of the market but he said that the French fund had been buying sterling heavily although they were being accorded no facilities for ear-marking gold. He was obviously encouraged by the manner in which the rate was holding up and reiterated that it would take a couple of days before the rise in the Treasury bill rate had the desired effect. I asked him about the tripartite monetary agreement and he said that he considered that "it remained there in principle".

KENNEDY

HPD

(*) Apparent omission.

CJ

PLAIN

LONDON

Dated August 25, 1939

Rec'd 12:15 p.m.

Secretary of State,

Washington.

1249, August 25, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

One of the Directors of the Bank of England who had a talk with Montagu Norman yesterday gained the impression that the Governor had been advocating for some time a rise in the bank rate, and that it was only yesterday morning that he was able to persuade the Treasury to take this step. Norman, as the official responsible for the working of the money market, took a fiscal view of the situation - that the interest rate had to bear some resemblance to the measure of the hazard or risk, in order that the mechanism of the market should continue to function, so that Longs as well as Shorts could be placed; in other words, it was necessary to make a market because a market is needed.

This morning's press makes it clear that the step was a complete surprise to the City, especially because the Bank of England had been a free buyer of bills at rates of from 9/16 to 13/16 percent in the two previous days. This
had

-2- #1249, August 25, 5 p.m., from London

had made a departure from the cheap money policy seem unlikely. The market was bewildered and there was at first some criticism since the step would increase the cost of Government borrowing and would not attract foreign funds or check an outflow and could, therefore, do little to help sterling. The City Editor of THE TIMES pointed out, however, that it would make speculation more costly. (Incidentally, it should be noted that because of the time-lag in the effect of the squeeze on speculative foreign exchange operations, the degree of curtailment of bear operations on sterling is not yet evident.

The leading financial writers' more considered views, which appeared in this morning's press, indicate a realization that the money market situation has changed materially since September and that the era of cheap money was in any case rapidly coming to an end, as armament activity increased, full employment approached, and interest rates showed a rising tendency.

In the words of a front page article in the FINANCIAL NEWS "investors were fearing a persistent rise in interest rates***which would hamper public subscriptions to loans. With the stabilization of the bank rate at 4 per cent a slow but persistent and, therefore, disturbing rise in interest rates will be avoided." This paper also emphasizes

the

lw -3- No. 1249, August 25, 5 p.m., from London

the desirability of an official indication that 4 percent is the final level and not an intermediate step to higher rates. Discount rates yesterday went to levels indicating fear of a further increase in bank rate, September, October and November Treasury bills being quoted at 3, $3\frac{1}{4}$ and $3\frac{1}{2}$ per cent, respectively, while 3 months drafts were finally quoted at $3\frac{3}{4}$ - $3\frac{7}{8}$ and six months paper nominally at 4 to 5 per cent.

Today's Treasury bill tender averaged a rate of 853 148 4-1/2D as compared with 158 7.39D last week.

KENNEDY

ALC

CJ

PLAIN

LONDON

Dated August 25, 1939

Rec'd 12:40 p.m.

Secretary of State,
Washington.

RUSH

1253, August 25, 8 p.m.

FOR IMMEDIATE DELIVERY TO THE ACTING SECRETARY OF THE
TREASURY:

Le Norcy, Acting French Financial Attache, called to see me to ask about our attitude. In turn, he showed me the note which he is presenting to the British Treasury in which Reynaud congratulates Simon on deciding not to impose exchange control and expresses appreciation of the British attitude. It points out that it is important that the pound reach an equilibrium point and reserves the right to take corresponding swift action for the franc. It notes that no mention was made of the Tripartite Agreement and its accompanying technical arrangements and which it hopes still hold good.

I told Le Norcy that I could not tell him what my Government's attitude was because the telegram dealing with this was still being decoded. He asked me for my

personal

-2- #1253, August 25, 6 p.m., from London

personal opinion which I gave him emphasizing that it was purely personal, that the notice had been extremely short, which point incidentally I had pressed Phillips about yesterday. I told him that whereas I had questioned Phillips decidedly about the efficacy of depreciating sterling at this time, the desirability or otherwise of these tactics would surely in the last analysis depend upon the duration of the crisis period. If the period proved long the tactics would no doubt be considered justified, if short, not. Le Norcy said this corresponded with his views and that of the French Treasury. He asked, did the United States consider the Tripartite Agreement as in effect and I said that until I heard to the contrary I would assume that it was. He also asked about the question of the competitive advantage sterling would receive from being depreciated and I said that speaking personally I felt the question hardly arose during a few days of acute crisis but that when the crisis terminated the question would no doubt come up and be considered in the light of the then circumstances.

I took occasion to tell Phillips in my interview with him of Le Norcy's call and of this question and of my answer thereto.

KENNEDY

ALC

PLAIN

LONDON

Dated August 25, 1939

Rec'd 2:30 p.m.

Secretary of State,
Washington.

1261, August 25, 9 p.m.

FOR TREASURY FROM BUTTERWORTH.

There was practically no business on the Stock Exchange today, though many quotations closed slightly up on last night's closing.

With the support of the exchange equalization account withdrawn the first business in sterling was done at 4.59 after which the rate fell rapidly to 4.35 but when New York opened and proved a heavy seller of dollars sterling went to 4.46 and later settled at 4.42 where it remained until the late afternoon. On Reuters report that the British Ambassador had been sent for by Hitler which was interpreted not as a possible ultimatum but as a possible way out together with the report of Japan's protest sterling closed at 4.49. Turnover substantial especially towards close.

151 bars of gold were sold at the fixing at 150s. 6d. which represented a discount of 2s 9d all the gold being forthcoming from the market. After fixing dealings were done at 151s representing a discount of 4s 11d dishoarding continues.

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 25, 1939, 2 p. m.

NO.: 1580

RUSH.

FOR THE TREASURY DEPARTMENT.

Reference is made to telegrams Nos. 1568 of August 23, 7 p.m., and 1562, August 23, midnight, from the Embassy.

At midnight Rueff called Matthews to the Finance Ministry. There he was conferring with Reynaud, Fournier, and other Bank of France officials. Rueff read to Matthews the somewhat garbled text of a telegram which they had received from London, stating that the French Financial Attaché had been called in tonight by the British authorities - and it is presumed that Butterworth was also present. The Attaché had been told that the British had decided no longer to support the pound in view of the extremely heavy losses of the past few days. The telegram stated that for the moment the British were taking no formal measure of exchange control, though of course the authorities would continue to keep strict surveillance over transactions in exchange. Regret was expressed by the British that they had not been able to have previous consultation. It is supposed that full cable report is being sent you by Butterworth.

Matthews was asked by Rueff whether the Embassy had as yet heard from Washington as to your reaction, and said that we had not received such word. Reynaud is now consulting the rest of the French Government as to the nature of the reply

- 2 -

to be made, Rueff said, and at 9:30 this morning, he promised, he will show us a copy of their reply.

Today the British lost 10,000,000 pounds, according to Rueff. On the several previous days similar sums were lost.

END OF MESSAGE.

BULLITT.

EA:LWW

lw

GRAY

Paris

Dated August 25, 1939

Rec'd 9:20 a.m.

Secretary of State

Washington

BUSH

1583, August 25, 11 a.m. (SECTION TWO)

"We have just received a communication from the British Government which informs us that the stabilization fund is withdrawing from the market.

We have only been able officially to acknowledge to the British Government receipt of its communication adding, however, that although it makes no mention of the tripartite agreement we believe that that agreement is still in effect and that the technical provisions deriving therefrom are not modified.

We believe that in conformity with the tripartite agreement and the confidence which inspires our relations we should inform you that in the presence of the disturbances this decision will lead to on the exchange market, we have had to reserve the same liberty of action for the fixation of the rate of the franc".

BULLITT

WWC:HPD

214-M

PARAPHRASE, SECTIONS THREE AND FOUR, TELEGRAM NO. 1583 OF AUGUST 25, 1939, FROM THE AMERICAN EMBASSY, PARIS

Then Rueff remarked that it was only at 8 o'clock last evening that the British had informed the French, and had stipulated that the news should not be sent to Paris by telephone; it was 11 p.m. before the telegram was received and decoded. It could hardly be said that this was "consultation", but Rueff added that the French Government had no option but to reserve liberty of action as stated above, in view of the suddenness of the action. He understands that there will be continuation of purchases, sales and conversion of respective currencies by the Tripartite partners. This morning, he told us, the franc rate was quoted only "a little higher" than the quotation was heretofore.

Rueff said it was too early to see what the ultimate effect of the British action will be either on the pound or on the franc. He said that future developments would determine this, of course.

At the present moment, sterling is being bought by the Bank of France at 176.68 and offerings are only in moderate amounts. There is as yet no definite knowledge on the market of the British decision. However, in view of the fact that dollars are not being quoted in London or (omission) and the fact that the British control is not in the market, it is suspicious.

END MESSAGE.

BULLITT.

EA:LWW

314-N

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 25, 1939, 11 a.m.

NO.: 1583

RUSH.

FOR THE TREASURY DEPARTMENT.

Reference is made to telegram No. 1580 of August 25 from the Embassy.

This morning Matthews was received by Rueff, who said that Reynaud had instructed him to give Matthews a message, and proceeded to read a statement, a copy of which was given to Matthews and which reads as follows (in translation):

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 25, 6 p.m.

NO.: 1590

FOR THE TREASURY

Section 1. This afternoon Paul Reynaud informed us that he thought the British idea somewhat sketchy, of what constituted consultation under the tripartite agreement. He is of this opinion because the telegram which informed him of the British Government's decision not to adopt exchange control, but to let the pound seek its own level while applying certain measures of exchange restriction, had only reached him late last evening (as was reported in Embassy telegram No. 1583, dated August 25, 1939, 11 a.m.). Also, this telegram had merely informed him of the decision which the British Government had already taken.

Paul Reynaud said he had made a polite reply to the British Government's unilateral action. In order to keep up the semblance of real cooperation, he hoped that the United States Government would also pretend that it had been informed in advance.

Section 2. According to his private opinion, the matter had been foolishly handled by the British. They would have had a cheap money and a strong one which would have drawn gold, had they abolished all

restrictions

restrictions on gold exports and simultaneously stopped operations of the stabilization fund, and let the pound drop with a resounding thud to a very low point indeed and then pegged it there. In his opinion, ~~xxxxxx~~ ~~xxxxxxxx~~ a continued flight from the pound would be caused by the restrictions still prevailing on the exports of gold and future exchange transactions.

Section 3. Having been confronted with the decision of the British, he had been obliged to make his own decision in regard to the franc, Reynaud said. In deciding that he would permit the franc to follow the pound at a certain distance in order that persons who exchanged pounds for francs would make a slight profit, he had had no hesitation. If he had the resources, he would tie the franc to the dollar, he added. However, should any such course be taken, people would know that the franc could not be maintained at its parity of yesterday, in the face of war. Speculation against the franc and a crash eventually of the franc would be the result. For the present, the Government of France has no intention of introducing any kind of exchange restrictions.

934-Q

PARAPHRASE OF SECTIONS FOUR AND FIVE OF TELEGRAM
NO. 1590, AUGUST 25, 6 p.m., FROM PARIS

In addition he stated that he sincerely hoped that the United States Government would not denounce the Trade Agreement with Great Britain because of the drop in the pound. It was his understanding that American textiles might be gravely affected by the pound drop. He felt, however, that the British Government would realize that the maintenance of the Trade Agreement would be of benefit to Great Britain and that it would therefore agree to an increase in duties on British textiles.

Reynaud stated also that he had been informed by Sir John Simon that the Government of Great Britain had no intentions of imposing exchange control in spite of the desire of the Bank of England to do so (see paragraph 3 of telegram no. 1488, August 11, 6 p.m.). He stated further that he had gladly bought £1,500,000 from the British this morning as he could transfer them into dollars at a profit. It was his opinion that the British would be wise to buy dollars now and cause the pound to be devaluated further and somewhat artificially in order that it might become really a strong money which could be maintained at a relatively fixed point.

SECTION FIVE

SECTION FIVE

In connection with the unilateral action of the British without consulting the American and French Governments finds, Daladier remarked to the Ambassador today that he well remembered the protests which the British Government made last year when the French "were polite enough to consult the British about the devaluation of the franc". Although he was not bitter about this he called it a typical example of the rules the British followed in dealing with the rest of the world; one rule which applied only to themselves, and another which applied to every other country. (You will remember Phillips' comments to Butterworth in this regard which were reported in paragraph 4 of telegram no. 356, April 29, 9 p.m., from London.)

BULLITT

NC

GRAY

PARIS

Dated August 25, 1939

Rec'd 5:05 p.m.

Secretary of State

Washington

1595, August 25, 8 p.m.

FOR THE SECRETARY OF THE TREASURY.

The market was, of course both active and disorderly following the British control's retirement from the market. The financial community here is still somewhat at a loss as to how to gauge future British and French policy but seems to feel that sterling will be permitted to find its own level. The pound was quoted here down to 437½ against the dollar but at 6 p.m. had swung back to 4.45. The fund as indicated in our telegram 1590 August 25, 6 p.m., gained substantial sums of sterling this morning and was a gainer of dollars on the day. The franc dollar rate ranged from 39 to 40.50. Franc against the pound is 175.45. There was little or no arbitrage business done today. The Swiss franc, Belga and florin were inclined to follow the dollar and were very strong against sterling. The Belga is now quoted at 5.94. Swiss franc at 4.46 against the dollar.

END SECTION ONE.

BULLITT

WWC

NC

GRAY

PARIS

Dated August 25, 1939

Rec'd 5:10 p.m.

Secretary of State

Washington

1595 August 25, 8 p.m. (SECTION TWO)

While a slightly more optimistic feeling concerning the political situation was evident in the market for no very tangible reason other than absence of more bad news, the demand both for French and American currency continued on an increased scale.

The tone of the securities market was slightly better and rates were one franc up to three francs down (the latter figure applying to the exchange option issue)

BULLITT

WVG

RFP

GRAY

Paris

Dated August 25, 1939

Rec'd 5:30 p.m.

Secretary of State

Washington

1595, August 25, 8 p.m. (SECTION THREE)

Statement published today reveals that exchange equalization fund possessed 14,938 million francs gold at the end of April compared with 18,835 millions and the end of March. Taking into account the 5 billions transferred to Bank of France during week ending April 20 holdings of fund increased during April by 1,100 million.

July revenue from indirect taxation about 366 million francs more than estimates. General budgetary revenue for same month shows increase of 1100 million compared with July 1938.

Financial press publishes an announcement by Bank of Spain that after Friday next it will resume payment of interest on securities of the Spanish public debt held in its vaults before July 18, 1936. END OF MESSAGE.

BULLITT

VWOC

For Licia

015

August 24, 1939

MEMORANDUM FOR THE PRESIDENT ✓

Attached hereto is a message from London received by us this afternoon at four o'clock. As you will note, the drain upon the gold resources of England has been proceeding at an alarming rate and the British have decided to let sterling depreciate beginning tomorrow. Therefore, the British equalization fund will not be in the market and sterling will in all likelihood be very weak.

JWH:ce

THE WHITE HOUSE
WASHINGTON

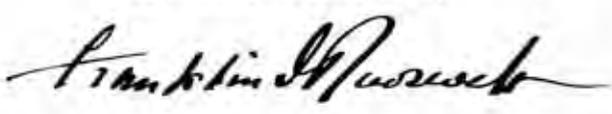
August 25, 1939.

Dear Mr. Secretary:-

I have reason to believe that there is a possibility that merchant ships belonging to European governments, which may become involved in war, or belonging to their citizens, are carrying armaments capable of being mounted on the high seas, thus converting them into armed ships. This raises immediately the question of American responsibility for giving clearance papers to such ships unless this government is wholly certain that such armaments are not being carried.

You will, therefore, withhold clearance papers from all ships suspected of carrying armaments until a complete search has been made and you are satisfied that no armaments are on board.

Very sincerely yours,



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

August 25, 1939

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Dear Mr. Secretary:

I have reason to believe that there is a possibility that merchant ships belonging to European governments which may be involved in war or to their citizens, are carrying armaments capable of being mounted on the high seas, thus converting such ships to the status of armed vessels.

Such a possibility immediately raises the question of American responsibility for giving clearance papers to such ships. It is, therefore, of the utmost importance that this Government first ascertain whether or not such armaments are being carried.

You will, therefore, withhold clearance papers temporarily from all ships which may be suspected of carrying armaments until a complete search has been made and you are satisfied that no armaments are on board.

Very sincerely yours,

*Dictated over phone to
Miss Gapps by the
President - 6:15 P.M. - 8/25/39*

August 25, 1939

Dear Mr. Secretary:

I have reason to believe that there is a possibility that merchant ships belonging to European governments which may be involved in war or to their citizens, are carrying armaments capable of being mounted on the high seas, thus converting such ships to the status of armed vessels.

Such a possibility immediately raises the question of American responsibility for giving clearance papers to such ships. It is, therefore, of the utmost importance that this Government first ascertain whether or not such armaments are being carried.

You will, therefore, withhold clearance papers temporarily from all ships which may be suspected of carrying armaments until a complete search has been made and you are satisfied that no armaments are on board.

Very sincerely yours,

JDR

Dictated to Miss Epps.

by the President of the U.S.

6.15 P.M. Aug 25 - 1939 -

J.W.H.

For [unclear]

August 25, 1939

5:40 P. M.

238

To: Mr. Gaston

From: Mr. Hanes

Today at Cabinet the President instructed me to notify all Collectors of Customs and others who might be responsible in all the territorial waters of the United States

- (1) that upon the entry of foreign vessels into any United States port that the master of such vessel should be contacted and his intention should be called to all the regulations surrounding the issuance of clearance papers. State to him further that these regulations would be rigidly enforced.
- (2) that the Collectors and the Coast Guard should be notified that in the event of any vessel trying to sail from any United States port without clearance papers that
 - (a) orders were to be issued to the Coast Guard to go along side such vessel and stop her and order her immediate return to port - this order to be in effect outside the three-mile limit, as well as inside.
 - (b) if she hesitates or refuses - to fire a shot across her bow
 - (c) in the event she refuses still - fire a shot into her bow above the water line
 - (d) if she still refuses - fire a shot at her water line - well forward

I told the President that I would take this matter up immediately and would consult with the Attorney General before the issuance of such orders. The Attorney General will be ready to give us clearance when such orders have been drawn. Such orders should not be issued without clearance from the Attorney General.

JWH:ce

FEDERAL RESERVE BANK
OF NEW YORK

119

OFFICE CORRESPONDENCE

DATE August 25, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

Mr. Hawker called at 3 o'clock. Things had gone as well as could have been expected. The market was a bit stunned at the opening and nobody was willing to make a start. When eventually they got going the dollar was gradually bid up to 4.38; gold was fixed at a discount of 2s 1/2d on the dollar with some arbitraging and a good deal of dishoarding, which gradually brought the dollar back to 4.42. Lazard sold some against gold on arbitrage. The day's total turnover was probably between \$10,000,000 and \$15,000,000. Switzerland was among those buying gold, making profits as high as 5s an ounce.

The franc was held with sterling and after fluctuating a little bit and losing and gaining, Cariguel probably came out about square.

There was practically no business in the forward market.

The Continent, Hawker thought, seemed to have quite generally expected exchange control, but seemed to have taken depreciation of sterling quite satisfactorily so far. "Heaven knows what will happen in the future." The stock market had opened dull but held up quite well. There wasn't a great deal to report from here, I said, but had he read the comment on this morning's press conference of the Acting Secretary of the Treasury? Hawker replied that he had, that he thought it was a very admirable statement, a fine gesture on the part of our Treasury and everybody there was greatly pleased with it and could only feel grateful to the American Treasury for its attitude.

LWKN

August 25, 1939.
9:30 a.m.

Operator: Hello Mr. Hanes.

Hanes: Hello.

Operator: Thank you - one moment.

Butterworth: Hello

Hanes: Hello

(Long pause)

Operator: Go ahead.

Hanes: Hello

B: Mr. Hanes?

Hanes: Yes.

B: This is Butterworth.

Hanes: Hello Butterworth - how are you? Hello - hello

B: Hello - this is Butterworth.

Hanes: All right, fine - go ahead - now I can hear you.

B: I thought I'd better call you up as your market was opening.

Hanes: Yes.

B: I've gotten your two telegrams and I've had a talk with Phillips.

Hanes: Yes.

B: They are staying out of the market entirely and from now on there were practically no dealings and then they started off about 456 and they gradually worked down to about 435 and then there was a rebound and the rate at the momeen runs somewhere around 440.

Hanes: Right.

B: Now the Bank of France has been buying sterling even though they can't convert it into gold.

Hanes: I didn't hear that last.

B: I say the Bank of France has been buying sterling even though they cannot convert it into gold.....

Hanes: I understand.

B:and that has done a good deal to support the market.....

Hanes: I see.

B:and some of the New York banks have orders to sell dollars and, of course, you may know more about that than I do.

Hanes: Right.

B: I'm sending you a long telegram about my conversation with Phillips.....

Hanes: Good.

B:explaining the business about the shortness of notice. As Mr. Kennedy said about some of the other people - they're rather punch drunk.....

Hanes: Yes.

B:and Phillips gives me his word that this decision was only made yesterday and yesterday they lost 16 million pounds.

Hanes: I see. Well are they making any announcement from London as to the reasons for this.

B: No, they are making no announcement at all but I gather that the Governor of the Bank of England is going to see some of the Press this afternoon and try to put the right twist on the story.

Hanes: Well we're having an awful lot of pressure put on us over here to give some reasons for this move on the part of Great Britain.

B: Well I think about all that one can say is that one doesn't know how long the crisis is going to last.

Hanes: Yes.

B: My own personal view is that if this thing is going to leap ahead one day in the next few days one way or the other these tactics are bad.

Hanes: Yes.

B: But if the crisis is going to be prolonged over a period of time then they are obviously necessary.

Hanes: Yes - hello - hello - hello - hello.

Operator: Just one moment.

Hanes: All right. Hello.

B: Hello.

Hanes: Yes - I'm sorry we lost it.

B: Did you get that?

Hanes: Yes I did.

B: But that, of course, is only my personal reaction - I mean that's - I pressed him very strongly yesterday on the shortness of the time.

H: Right.

B: But perhaps that was the real feeling. These people, when they get moving gold - it was like the French last year and the year before; they don't see any hope and they just look at their figures and watch it going and they get jittery.

H: Right. Well now wait just a minute - Archie Lochhead wants to ask you a question.

B: Its possible they've done a bad thing; if its going to last a very short time well then it's obviously been a misjudgement.

H: Right. Well now hold on just a minute.

Lochhead: Hello - Walton. Walton - hello.

W: Yes.

L: This is Archie.Lochhead.

B: Yes Archie.

L: There's one thing I want to refer you to.

B: Yes.

L: Now, of course, we're going to get an awful lot of questions over here as to whether or not the tri-partite agreement is still in full effect.

B: Yes.

L: Now naturally I think we're going to try to carry thru as best we can smoothing it down but I want to refer you to the Press Release of Tuesday, October 13, 1936.

B: October 13, 1936.

L: You've got copies of that. That was when we made arrangements to supply each other with gold and we mentioned, at that time, that we would publish the ones whom we were supplying gold to because they were supplying gold to us.

B: Yes.

L: Now I presume that so far the English are not going to give us a gold price to-day.

B: That's right.

L: Well now if they don't I'm afraid that we may have to make a Press Release that we have stopped offering gold to the British.

B: Yes.

L: Now I don't know. That decision hasn't been made yet. We haven't been able to check into it entirely.

B: It just makes us do that.

- L: But I'm afraid that under that Press Release we gave we've given notice that we'll make public record each day and somebody is going to dig that up and ask us about it and that, of course, the fact that we'll say England is not supplying us gold and we're not supplying them gold isn't so good.
- B: Yes.
- L: Now just look over that Press Release and.....
- B: Well suppose I don't have that.
- L: Oh well you have it and the British have it - both. They can look it up. Tuesday, October 13, 1936 - the British Treasury has it; the Bank of England has it.
- B: Yes.
- L: So I mean there's no use trying to read it over the phone.
- B: No.
- L: Its Press Service No. 866.
- B: Now Archie, the French Financial Attache called on me to-day - hello -
- L: Yes.
- B:and showed me the note that Reynaud had instructed him to present and it says - it starts off by congratulating Simon on deciding not to impose exchange.
- L: (Laughs) That's typically French this time.
- B: Yes. Now he goes on to hope that an equilibrium will be established soon and reserves the right to take equally swift action as regards the franc.
- L: Yes.

B: Then it brings up this question of the tri-partite agreement and the accompanying technical agreement, you know.

L: Yes.

B: And says, in rather complicated French phraseology, that it hopes it holds good.

L: I see.

B: Well the British have told them that they are not going to give them a gold price and I asked them also, on my own initiative, about the tri-partite agreement. Phillips says that he assumes that the tri-partite agreement still holds good in principle.

L: Yes, well now I think that is what they'll have to work on - that it holds in principle - but it's going to be an awfully hard job explaining it to the public.

B: Yes.

L: Now you say that the French, in their note, put the British on record that they reserve the right of action.

B: They reserve the right of - a literal translation of it - as I recall it in my mind - he didn't give me a copy of it but he let me read it - it ran something like "Equally swift action".

L: Yes, well now, Walton, we have given you nothing but a straight acknowledgement of the note. That doesn't imply, of course, that we don't retain all our rights.

B: Yes, well now look here - to cover ourselves - when I went to see Phillips to-day I said, "I have only an reply".

L: Yes.

B: Which said that we acknowledge the receipt of this message which reached us at a very late hour and, therefore, it made our notice extremely short.....

L: Good.

B:which precluded any discussion, you see?

L: Yes, well I think that was perfectly right and I think that's the way we're going to stand just now.

B: You'll talk about the other things that you've cabled me about.

L: That's right.

B: Since we didn't alter our position I never felt by saying an ad-interim reply.

L: Well that interim reply can stay until we decide if and when we make a different reply.

B: If you want to put _____ and form a legal document, so to speak, why then you can do so at your leisure.

L: That's right because there's going to be no hurry about anything.

B: No.

L: About any new - any more formal reply. All right then - now just a moment please.

Hanes: (Aside to group: Anybody else anything) Hello

B: Yes.

H: Have you got anything else?

B: There's only one thing. Reynaud, when he came to see me - you know he's the Acting French - he asked me what our opinion was about this, that and the other and I told him the cable from Washington was still being decoded, you see?

H: Yes.

B: I thought that was a way out.

H: Yes.

B: And then he asked me what my personal opinion was about the depreciation of the pound in terms as far as a trade advantage was concerned.

Hanes: Yes.

B: And I said my personal opinion was that a trade advantage didn't really arise as a question during an acute moment of crisis but when the crisis starts, in one form or another, then that would create a new situation which would have to be examined in the light of the then circumstances.

H: Well I think that's exactly right.

B: I took occasion to say to Phillips that this man had called and that this was what I told him.

H: Right.

B: It served the purpose of putting him on record as to my personal belief without having to be rude about it.

H: Right. Well I think that's perfectly all right. Now have you got anything else for us?

B: No, the atmosphere is not a damned bit good over here.

H: It is not.

B: No and these people are awfully determined - not because they want to do anything but because they don't see any way out.

H: Yes.

B: They're on the horns of the dilemma; either they fight - and it's going to be awful - for if they don't fight and do another Munich, they'll never be able to hold their Empire and the Allies together again.

H: Yes.

B: And so it's in that state but I personally haven't given up hope.

H: I see.

B: But there's nothing tangible which you can base a hope on.

H: Yes.

B: But events are moving fast and - but we haven't played the game out yet.

H: I see. All right, well you keep in touch with us; if anything happens let us know right away and we'll keep in touch with you.

B: You don't mind my telephoning?

H: Not a bit no. Telephone us at anytime that you have anything that's important.

B: Right.

H: O.K.

B: Goodbye.

H: Goodbye.

August 25, 1939.
11:40 a.m.

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Hanes: Hello.

Operator: Mr. Hanes, may they call you back? Mr. Welles is with Secretary Hull.

Hanes: All right. Just ask the Secretary to call me as quickly as I can talk to him.

Operator: Thanks.

11:50 a.m.

Operator: All right, Mr. Hanes.

Hanes: All right.

Operator: There's Mr. Hanes.

Hanes: Hello.

Welles: Hello.

Hanes: Sumner?

Welles: Good morning, Johnny.

Hanes: How are you?

Welles: Fine, thanks.

Hanes: Good. I just had a telephone call from Joe Kennedy.

Welles: Joe Kennedy.

Hanes: Yes, I guess it was in response to our telegram yesterday somewhat criticizing the haste of that British action.

Welles: Yes.

Hanes: And he was explaining to me why they had to take this move rather suddenly.

Welles: I see.

Hanes: The second thing he asked me was - he asked before we took any decision on - especially on gold or securities - that we consult with him, as he had some ideas which

he wanted to lay before us.

Welles: Uh-huh.

Hanes: I assured him that I would.

Welles: I see.

Hanes: What was the last thing that he said - oh, he said that he had an important message which he was going to send to you and asked me to convey that message to you.

Welles: I see.

Hanes: He was sending that right along.

Welles: All right, Johnny. Thank you very much indeed.

Hanes: O. K.

Welles: See you later.

Hanes: Righto.

Welles: Goodbye.

August 25, 1939.
11:45 a.m.

Hanes: Hello. Hello, Adolf?

Berle: Yes.

Hanes: John Hanes.

Berle: Oh, hello John, yes.

Hanes: How are you?

Berle: First rate, fine.

Hanes: Have you got a minute or are you terribly tied up?

Berle: No, I'm not, go right ahead.

Hanes: Well, I was going to ask you to do the same thing for me you did the other day and give me a short message that I can get off to the Secretary before he goes to bed tonight.

Berle: Right - now I wonder this - could you let me call you back in a few minutes. The reason why is that a flock of cables have come in since the last few moments I've been in the committee meeting which has just adjourned.

Hanes: Yes.

Berle: And after I get over those it might change the picture a little.

Hanes: Any time before 2:00 o'clock, Adolf.

Berle: All right, I'll do that. I'll do it in the next fifteen or twenty minutes but I do think that I might give him a bad steer unless I go over this last bit of stuff that's in.

Hanes: That's fine. Thank you ever so much.

Berle: All right.

August 25, 1939.
11:35 a.m.

Operator: Hello - all ready, Mr. Hanes.

Hanes: All right.

Operator: There's Mr. Hanes.

London
Operator: Hello - Mr. Hanes - ready on the call from London.

Kennedy's
Secretary: Hello - Mr. Hanes.

Hanes: Yes.

Kennedy's
Secretary: Ambassador Kennedy - just a moment.

(Pause)

Hanes: Hello.

Kennedy's
Secretary: Just a moment, will you, Mr. Hanes - Mr. Kennedy
will be here in just a second.

Hanes: All right. (Pause)

Hello.

Kennedy: Hello, Johnny.

Hanes: Hello, Joe, how are you?

Kennedy: I'm fine. How are you?

Hanes: Just fine, thank you.

Kennedy: Johnny, I have a couple of ideas on this situation
that I thought I'd like to pass you since I used
to be in the finance business.

Hanes: Righto. I'd be delighted.

Kennedy: In the first place, there isn't any - wasn't any
way of having a discussion about this thing because
my own belief is that this thing turned in the
last week faster than they had any suspicion that
it was going to turn.

Hanes: Yes.

Kennedy: In the second place, I think it was their intention, if it was possible, to hold this thing at that level until they had a clear indication that there was no more hope.

Hanes: Yes.

Kennedy: Well then they got murdered this week and they - it went on - I think that they decided it all within six or seven hours themselves.

Hanes: Well, that was our feeling here, Joe.

Kennedy: The situation that happened on the franc last summer was a discussion for months.

Hanes: Yes.

Kennedy: This thing - I mean I'm giving you this - I hold no brief on the situation as you'll see when I discuss my second subject.

Hanes: Yes.

Kennedy: On this one I wouldn't let everybody get worked up because I just was talking to Offey in Paris and he said that they were all upset about it and I said, "When are you going to make up your mind that you're going to do this thing when these things are happening to you as fast as they are."

Hanes: Right.

Kennedy: In other words, I think you can get mad about some things but I don't think this is one of them.

Hanes: Yes.

Kennedy: Now a second thing. Hello, Johnny.

Hanes: Right.

Kennedy: Hello, Johnny.

Hanes: Yes, I hear. Go ahead.

Kennedy: I think that it's most important that you come to a definite decision as to what you might do on securities or things like that that I have one shot at you. before

Hanes: I didn't hear that last.

Kennedy: I want to talk with you. I mean in other words I wouldn't make any decision as to how you were going to handle securities or how you were going to do anything about gold or anything like that and when the situation arises, if it does within the next 48 or 72 hours, until I have a chance to have a chat with you.

Hanes: Well, I'll do that. I'll call you before we do anything on either one of them.

Kennedy: Because you want to be plenty careful that you don't find this baby right in your lap.

Hanes: Right. Well, I certainly will, Joe, I'll call you before we make any radical decisions on anything.

Kennedy: Oh, splendid!

Hanes: What?

Kennedy: I want to - we're working for our own country first.

Hanes: Right.

Kennedy: And remember that they've had a hell of a lot more practice at this than we have.

Hanes: Yes.

Kennedy: So I just wanted to warn you - I just wanted to give you my slant because I've got a very definite idea that before any proposition is turned up I'd like to go over it pretty carefully.

Hanes: All right, Joe.

Kennedy: And they'll put them up to us - and I'll send you if you don't mind my own opinion on the plans.

Hanes: All right, I wish you would.

Kennedy: I'm sleeping on top of this and as you know we've got a damn good man here in Butterworth.

Hanes: Righto.

Kennedy: Well, goodbye, Johnny.

Hanes: Now Joe - hello - how do you feel about the situation in general. Are you optimistic or pessimistic - what is your feeling?

Kennedy: I'm pessimistic as hell, Johnny.

Hanes: You are.

Kennedy: And it's lousy.

Hanes: Yes, it looks bad now to me. I've been optimistic up until today.

Kennedy: Well - you ring up the boss or Welles and tell them this conversation - within a comparatively short time I'm going to send them a message.

Hello -

Hanes: Yes, I hear.

Kennedy: I'm going to send them a message that may be of great concern as to whether it is or whether it isn't.

Hanes: Yes.

Kennedy: He knows they're expecting that from me and they'll probably pass it on to you.

Hanes: Righto.

Kennedy: Goodbye, Johnny.

Hanes: Thank you, Joe, ever so much.

Kennedy: O. K., boy. I'm watching this too with you, so if you don't mind I'll keep on top of it too.

Hanes: Well, that's fine, I appreciate it.

Kennedy: All right, Johnny.

Hanes: Thank you, Joe.

Kennedy: Goodbye.

Hanes: Goodbye.

August 25, 1939.
12:28 p.m.

Operator: Hello - operator.
Overseas
Operator: Yes - just a minute now we're not ready.
O: Oh you're not quite ready. All right Mr. Hanes,
I'll call you back in a minute.
Hanes: All right.

3:42 p.m.

Operator: Who is this - Mr. Gaston?
Gaston: Yes.
O: Mr. Gaston, did Mr. Hanes tell you about Mrs. Mor-
genthau's sister inquiring for them?
G: Yes.
O: I didn't know whether he had told you or not and I
thought you might want to mention it to the Secretary.
G: Yes - yes.
O: That's Mrs. Josten, you know.
G: Yes.
O: All right. I think it will be thru now in a couple
of minutes.
G: Thank you.
Gaston: Hello.
H.M.Jr: Hello.
G: Hello.
H.M.Jr: Yes.

Gaston: This is Herbert.

H.M.Jr: Yes Herbert. Where's Johnny?

G: Johnny is at a Cabinet Meeting and there's a meeting at Hull's office following that.

H.M.Jr: I see. That's all right - hello.

G: Yes.

H.M.Jr: I imagined that's where he was.

G: Yes.

H.M.Jr: What have you got to tell me.

G: Well - ah - we replied to that note from Butterworth simply acknowledging it and.....

H.M.Jr: Hello

G: Hello

H.M.Jr: Replied to what?

G: Ah - the Butterworth information on the pound and we merely acknowledged it but expressed surprise that we didn't have earlier advice that they were taking that action. Ah - Kennedy called up Johnny this morning and he justified the British action and said they didn't have time to consult and it was a terrible emergency and they had to act. The other thing that Kennedy said was that he had some ideas on the matter of gold transactions and what we should do about foreign securities and he'd like to have us consult with him before we do anything drastic.

H.M.Jr: Yes.

G: He asked that we report that to the State Department which Johnny did.

H.M.Jr: Yes.

G: Now the President, at his Press Conference this morning, said that there was still hope that war might be averted; he was not calling Congress into special session; he wouldn't do so until war was imminent; he didn't regard it as being imminent now.

G: The market reacted favorably to that; government bonds had dropped some at the opening but they rebounded very sharply; the six leading bonds were about one and a half points above the low of to-day for a time but at the close they were 15/32ds higher than yesterday.

H.M.Jr: Good. Herbert, when I'm thru - is Danny Bell with you?

G: Danny is here, yes.

H.M.Jr: Well when I get thru talking to you I'd like to talk to him.

G: Right.

H.M.Jr: We went all over those arrangements last spring, you know?

G: Yes.

H.M.Jr: Without Joe's help.

G: Yes - yes - I think so.

H.M.Jr: So is Johnny going to follow that?

G: Well - ah - I don't know.

H.M.Jr: We worked on that for a solid week you know.

G: Yes - yes - well - ah - of course, its obvious that Joe will know what passes from Butterworth and nothing can stop him expressing his opinion.

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

G: Mrs. Josten called up. She wanted to know how you were and she wanted to know if there's anything we could tell her about your plans.

H.M.Jr: Well the only thing you could tell her is that the family is booked on this boat - the Bergen.

G: Yes - yes.

H.M.Jr: Sailing on the 31st.

G: 31st.

H.M.Jr: Herbert.

G: Yes.

H.M.Jr: I just talked to - is Archie with you all?

G: Archie is here - yep.

H.M.Jr: I just talked to Walton Butterworth and he tells me that the President HARDING may sail on the 27th.

G: Oh did he?

H.M.Jr: That also they may turn the MANHATTAN around, see?

G: Yes - well now the ROOSEVELT is sailing tomorrow from Havre.

H.M.Jr:to keep you posted - hello.

H:M.Jr: Ask Basil Harris what he's doing, you see?

G: Yes.

H.M.Jr: You know Basil Harris.

G: Yes I do.

H.M.Jr: And if you would code as little as possible because McKay just can't handle it.

G: Yes - right.

H.M.Jr: Just use it on the absolutely important stuff.

G: Yes - yes - all right and I'll give you a report on the ships by plain message.

H.M.Jr: And then I'd like to have when - as soon as Hanes comes back I'd like him to send me a message in code what happened at Cabinet and also what happened over at the State Department.

G: Yes - yes - all right.

H.M.Jr: But I take it, with our market rebounding like this, that there's nobody figuring on doing anything.

G: No - no - when it began to shoot up so fast this morning there was some talk about whether we ought to sell something with the conclusion that we ought not to.

H.M.Jr: Was Johnny impressed with Joe calling him?

G: Oh I guess not greatly. He had an interesting conversation.

H.M.Jr: I see.

G: Yes.

H.M.Jr: But this call comes thru London I suppose the British government gets the benefit of it.

G: I guess so - yes.

H.M.Jr: How do you feel about this whole thing Herbert?

G: Well I feel that there's just a little touch of hope to-day. Hitler sent for Henderson, according to the radio reports, and some hope arose out of that.

H.M.Jr: Henderson has sent in his answer and they are decoding it right now at the Foreign Office, you see?

G: Oh, are they.

H.M.Jr: I suppose in a little while they'll have it and send it to Washington and if you know what it is and can find out from the State Department let me know.

G: Yes.

H.M.Jr: Now the other thing, Johnny is staying over the week-end at Washington.

G: He is - yes, he's staying.

H.M.Jr: And had he planned on going away?

G: Well no - not since this thing got so hot he had not.

H.M.Jr: Is my General Counsel there?

G: Your General Counsel is up in Bar Harbor, I think.

H.M.Jr: Well you better send him a wire and tell him to be in the office Monday.

G: In the office Monday - yes.

H.M.Jr: He better be back Monday morning.

G: Berney Bernstein is in Paris and we've been trying to make some special arrangement to get him on the ROOSEVELT tomorrow.

H.M.Jr: Good. To get him back.

G: Yes.

H.M.Jr: He ought to come back before this.

G: Yes.

H.M.Jr: What else.

G: Why that's about all. Johnny had a conversation with Rentschler this morning and Rentschler told him how the King of Siam brought his ten million back and that all the New York banks were getting a great flood of money from abroad.

H.M.Jr: Well the main thing is tonight when Johnny comes back I'd like to have a summary of what happened at Cabinet - also if anything happened at the State Department.

G: Yes - and including the Henderson thing. Now do you want to talk to Archie or to Dan?

H.M.Jr: Well Dan first.

G: Yes.

Bell: Hello

H.M.Jr: Dan.

Bell: Yes sir.

- 7 -

H.M.Jr: I got your timetable on our financing, see?

B: Yes.

H.M.Jr: Now as I remember it last year we did not do any announcing until after Labor Day.

B: That is right.

H.M.Jr: And now you are suggesting that we do it before Labor Day.

B: No - ah - only the informal - I think you did a little of that last year but I would even eliminate that now in view of what has happened. That was only in case it went along at the time that I wrote that memorandum.

H.M.Jr: Yes but do nothing - that's the way I feel now.

B: That's right and I feel that way too; that we do nothing until Tuesday the 5th.

H.M.Jr: Until Tuesday the 5th - to hold everything.

B: That's right.

H.M.Jr: Make no commitments publicly or privately.

B: That's right.

H.M.Jr: Do you agree with me?

B: Yes sir - 100% and I'm sure Johnny does now.

H.M.Jr: Now what else do you know?

B: Ah - not a thing. Herbert told you about the market; it's acted very nicely; George Harrison had a long conference yesterday with the biggest bankers in New York and they all agreed that they would not sell their securities and as a matter of fact they would buy on the down-swing and some of them did.

H.M.Jr: When you speak of securities you mean gold ones.

B: What?

H.M.Jr: Bonds.

B: Government bonds - yes, right.

H.M.Jr: Right.

B: And some of them did buy yesterday. I think the Guaranty and the National City each bought about 6 million apiece.

H.M.Jr: Right.

B: So that the market has acted very nicely; it's been very orderly and, while it's lost a lot of ground, it will come back pretty fast. Gordon Rentschler says there is volumes in money waiting for investment and it has got to go some place and there isn't any place but government market.

H.M.Jr: What will be a good time to talk to me tomorrow, Dan?

B: Anytime you say - we'll be here all day.

H.M.Jr: Supposing you people put in a call for me at 12 o'clock.

B: 12 o'clock - that's six your time. All right
12 o'clock tomorrow we'll put in a call for you.

H.M.Jr: I don't have to pay for it at this end.

B: (Laughs) All right - well why don't you reverse the charges.

H.M.Jr: Can't do that.

B: Can't do that.

H.M.Jr: No.

B: Allright, Herbert's got one more word for you.

H.M.Jr: Allright.

Gaston: On the boats, Henry, the CAMPBELL should be in Bergen Monday night or Tuesday morning. It may be about as good as you can do - she does about 21 knots.

H.M.Jr: I see.

G: Yes - she should^{be}/there Monday night or Tuesday morning.

H.M.Jr: She must have been away out at sea.

G: Well I told him, you know, when he got up to the corner there near Cape Brace I told him to keep on drifting east instead of going north and then when we got your word yesterday we told him to go ahead full speed for Bergen.

H.M.Jr: Oh yes.

G: So he never did go up to Greenland.

H.M.Jr: I see.

G: Yes.

H.M.Jr: If you think I might be just as well on her - and then I thought the thing - to take me - keep this very quiet - as far as Newfoundland and then have them pick me up with a seaplane.

G: Yes, well now I thought this that the amphibian could go out from Boston and up there off the coast somewhere within two or three hundred miles and then we could have the Lockheed at Sailmast Station and you make the transfer there and come on down.

H.M.Jr: To Boston.

G: Yes.

H.M.Jr: Yes.

G: Ah - Johnny is here now but I also want to tell you that Jake Viner is in Bergen.

H.M.Jr: He is?

G: Yes.

H.M.Jr: Well I wish you'd send him a telegram just where I am and have him phone me.

G: All right, we have your address, have we?

H.M.Jr: Oh yes.

G: All right, I'll send him a cable. Eddie gave me that information. Eddie called up because some friend of yours suggested to him that you - ah - they heard - read that you weren't going to come home and weren't

going to cut short your vacation and they thought that was a mistake and I assured Eddie you were going to get home as quick as you could safely.

H.M.Jr: Was that in the newspapers - I wasn't coming home?

G: No - well there might have been something awhile back to that effect. Of course, we didn't want to advertise any change in your plans until it happened.

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

G: Johnny is here now.

H.M.Jr: All right.

Hanes: Henry - hello Henry. Hello.

H.M.Jr: Hello Johnny?

H: Hello Henry. I just came back this minute from the cabinet meeting.

H.M.Jr: Yes.

H: And there was nothing there at all to-day that we don't already know and I guess Herbert has told you that nothing new came up at all. We were just getting instructions for each Department which way they were to move - that's all.

H.M.Jr: I see.

H: But it was more or less in line with all the things you were already familiar with last spring.

H.M.Jr: Well haven't we got everything in good shape?

H: I think so. We are making a survey now - Frank Murphy - he asked Frank and me to make a survey of all papers in all departments to see if everything was ready.

H.M.Jr: I see.

H: And we're going over to a meeting now at State and I think that everything - we'll get the final documents over there this afternoon.....

H.M.Jr: Right.

H:and I think it's all in good shape. I don't know of anything else to tell you that happened there; it was all more or less routine.

H.M.Jr: I see. Well I have nothing here. The boys will tell you what I said.....

H: Right.

H.M.Jr:and I won't repeat because I have to pay for this.

H: Yes (laughs) - that's right. Well I guess Herbert asked you about Mrs. Morgenthau's sister.

H.M.Jr: I gave him the answer on that.

H: All right, fine - that's all I had to say.

H.M.Jr: The MANHATTAN and the other boat may sail earlier and I asked him (Gaston) to talk to Basil Harris and find out about the MANHATTAN and the PRESIDENT HARDING because Butterworth tells me that they may be sailing very much earlier.

H: I guess they told you the ROOSEVELT is sailing Sunday afternoon.

H.M.Jr: Well that's what Butterworth told me but I don't know how the hell I'd get over there and I can't get the family over there anyway.

H: No.

H.M.Jr: This is what I think and I wonder whether you people agree. I've got these reservations for the family on this Norwegian boat and she's sailing on the 31st and I think that's the best bet for them.

H: Well I would think so too. I think these boys here agree with that. Of course, I don't know - how about the family with the Coast Guard?

H.M.Jr: The what?

H: On the Coast Guard.

H.M.Jr: No, they all refused to go on that.

H: They did. Well they might be pretty comfortable on there.

H.M.Jr: Well as long as they can go on the BERGENSBORD I think it would be better.

H: Yes, well I'll tell you what we'll do. We'll make an examination of everything that's leaving over there, see, and we'll call you tomorrow. I understand we're going to talk to you tomorrow at 12 o'clock our time.

H.M.Jr: That's right.

H: And we'll call you.

H.M.Jr: That's right.

H: And they know how to get you.

H.M.Jr: **Yes.**

H: All right, fine, we'll be talking to you. In the meantime I'll try to locate all the information about oncoming ones.

H.M.Jr: Yes, well I guess Basil Harris would know better than anybody else.

H: Yes, we'll get in touch with him right away.

H.M.Jr: But I gather the Cabinet Meeting was a quiet one.

H: It was extremely quiet. It was all detail; all routine; he said everything I know you know - it's in the papers.

H.M.Jr: Then I also gather there was no objection to having the CAMPBELL come for me?

H: Well no I'm sure there will not be any. I asked to see Pa but I didn't say anything to the boss about it.

H.M.Jr: Yes.

H: But I asked to see Pa and Pa was out.

H.M.Jr: Did you say anything to him about my plans?

H: No, I didn't say a word to him. I just told him that I talked with you on the telephone and that you were well.

H.M.Jr: Yes.

H: And all the family was well. He asked about you.

H.M.Jr: But he didn't ask when I was coming home?

H: No.

H.M.Jr: Or didn't suggest anything.

H: No, he did not. I imagine he got the information thru Pa. I told Pa last night that we hadn't changed our mind about the CAMPBELL you know.

H.M.Jr: Oh.

H: So I imagine he had that information and he didn't question me on it.

H.M.Jr: Oh you did tell that to Pa.

H: I just told him that we had not made any change in our plans and that I would come over and talk to him about it and tell him what I plan was so he said, "Fine, fine" - and let it go at that.

H.M.Jr: Good. Now could I talk - ah - anything else?

H: That's all I've got, Henry.

H.M.Jr: Could I talk one minute to Archie?

H: Yes, just a moment.

Lochhead: Hello.

H.M.Jr: Hello Archie?

L: Yes sir.

H.M.Jr: What have you got that you can tell me.

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- L: Well I'll tell you. The market in the exchanges has mostly been nominal to-day. They are all trying to size it up and there's nothing going on. As far as we stand on the other side you know we're all cleaned up this week-end.
- H.M.Jr: Oh fine.
- L: Not a thing - the boat on Sunday or Saturday - whether it sails Saturday or Sunday clears us all up.....
- H.M.Jr: Fine.
- L:and so we're sitting very pretty.
- H.M.Jr: Well **that's** good.
- L: And there's really nothing to talk about except the general situation, of course, in the sterling and so forth and they are very well satisfied with the statement Johnny Hanes made this morning.
- H.M.Jr: He made a statement?
- L: Well yes you see the boys came in right away and wanted to know whether the tripartite had busted up.
- H.M.Jr: Yes.
- L: And Johnny said no, we considered it in force.
- H.M.Jr: I see.
- L: And they wanted to know whether this Brinkin Exchange wouldn't bust it up and they say no in these circumstances it wouldn't be competitive devaluation.
- H.M.Jr: Good.
- L: And they also came in right away and wanted to know whether he was considering devaluing the dollar under the power you have and Johnny said - spiked that right away - said we hadn't thought or talked about it.
- H.M.Jr: Good.
- L: So I think we're very reassuring; the market took it very well.....
- H.M.Jr: Fine.

L:and they seem to be very well satisfied with it on the other side also.

H.M.Jr: Fine.

L: So everything, as I say, as far as it goes - everything is easy; there's no high blood pressure here on that part.

H.M.Jr: Good.

L: All right, well I'm still - you know I'm still pulling for what I said you went away; that there will be no explosion. I'm very much - I think the minority but I still feel that way.

H.M.Jr: Pull like hell.

L: Well maybe - I'm pulling - because Kennedy - you know Joe was very pessimistic this morning.

H.M.Jr: He was.

L: Yes but I think you always have to discount a certain amount coming from those two centers of course.

H.M.Jr: That's right.

L: Well, as I say, I'm glad to know you are feeling well. That's the main thing.

H.M.Jr: I am. May I have Hanes a minute again.

L: Well now I'll have to try to catch him - he just ran into his own office.

H.M.Jr: Well let him go.

L: All right, then - goodbye.

H.M.Jr: Goodbye.

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Butterworth: Archie?

Lockhead: Yes Walton.

B: I had a talk with Phillips about that October 13, 1936 Press Release.

L: I don't just hear that.

B: I had a talk with Phillips about your - October 13, 1936.

L: Yes.

B: And they looked it up and couldn't find it but I happened to have a copy.

L: Yes.

B: And it disturbed them a good deal because they said that although they hadn't used these facilities very much that they were afraid that if that public announcement came out it would affect the bond market; increase the pressure of the sterling and too would cause them to question the tripartite.

L: Yes.

B: And they hoped very much that you could blow it over.

L: Well, now we've been talking along the same line. We can't give any assurance that we won't have to give out something but we want to take - think it over and try to delay it if we can or possibly eliminate it. Now we can't guarantee that that will be possible.

B: Yes.

L: But we have not made any statement so far and will try our best not to if we can find any way out of it.

B: That's what I told him, that I was sure that you would do that if you could.

L: Yes.

B: And Mr. Kennedy says that he thinks you can just confuse them - c-o-n-f-u-s-e.

L: Yes.

B: (laughs)

L: Well, as I say, we've tried our best on this side and you've seen Mr. Hanes' statement this morning. Has that come over?

B: No.

L: Well, the Bank of England has seen it and they were very much pleased with the statement.

B: Good.

L: Because we stated that the tripartite was still in existence and we did not consider it competitive devaluation.

B: Good.

L: So I think everything on this side so far, has been, I should say, 100% effort on our part to cooperate.

B: Oh sure - sure.

L: Well now as I - we were just talking about that a few moments ago and we're trying not to do anything on it if we can avoid it.

B: Well, I just called you up - I mean, simply because Phillips called me up just now.

L: Yes.

B: I'm in the midst of having dinner, and - passed this on.

L: I see.

B: I thought I'd pass it on to you.

L: Fine.

B: I mean he's not hot and bothered and neither am I.

L: No, but it's just the thing that we would like to avoid, if we could, on all sides, I think.

B: Yes.

L: Now, Butterworth, a couple of things I wanted to ask you. You're talking to the Secretary every day? Hello?

B: Hello.

L: Are you speaking to the Secretary every day?

B: What?

L: Are you talking to the Secretary, by telephone?

B: He's coming on the telephone in about two minutes.

L: About two minutes, well then he's going to talk to us also, we're waiting for a call from him.

B: All right, -

L: And he has asked us to summarize your messages to us.

B: Yes - he means the confidential ones.

L: I see.

B: Because the market was still open.

L: I see - well we'll do our best. There's a lot of it going over and we're trying to summarize it and send it over but I'm afraid it's going to give them a lot of work on - his man decoding.

B: I know.

L: But we'll do the best we can on keeping them going.

B: About this, because - I mean there was somebody else on business and this game is, right now, is pretty tough.

L: Yes, yes. Well, we'll follow - I just wanted to make sure that you were not saying anything to him - that we were not duplicating.

B: I wasn't saying a thing to him.

L: I see.

B: Merely about the general terms about the European situation.

L: I see.

B: Reservations and all that. Anything else I said was if you get McKay to get on to the wire he'll be able to catch it.

L: I see. All right. Well now, is there - are there any late developments?

B: No late developments.

L: I see. Just - they feel as pessimistic as ever.

B: But the market has been kept up today by the French, really and by the rumor - there's a rumor that it - when it was found that Henderson, the British Ambassador was going to see Hitler, they took it as not meaning that Hitler was going to hand them an ultimatum.

L: Yes.

B: But it should be a way out.

L: I see.

B: Market on that basis.

L: Yes.

B: But the combination of that rumor plus the French action which is the situation.

L: O. K. Just a second. All right. Well I think that clears that because I know you're waiting for a call from the Secretary and so are we. So we'll cut this off.

B: Now, Archie.

L: Yes.

B: I'm awfully sorry you're going.

L: It's a little premature yet and so as we've always said we're not making any statements, we're not talking about it at all.

B: That makes me feel better.

L: I see. I'll - when and if the time comes I'll talk to you.

B:

I thought so.

L:

O.K. then, goodbye.