Operator: There you are.
Hanes: Hello
Harry Durbin: Hello
H: Harry?
D: Yes.
H: This is John Hanes.
D: Oh yes, Johnny.
H: On this question of the NEW YORK.
D: Yes.
H: Now the President is anxious not to have that boat go out.
D: It won't go out.
H: He's writing me a letter directing me to direct you that - any of these boats that want to get away on a fast clearance of this kind to make a thorough inspection. He's got evidence or he's got suspicion that they are carrying some sort of armament.
D: I can - ah - you needn't go any further than that John. She won't - she'll not go out.
H: She won't go out.
D: I'll be right here. I was going down there tonight myself. I just came up here for dinner and I'm going right down there after dinner.
H: Well that's fine and you'd better notify the Coast Guard to be ready too.
D: I'll take care of that - I'll have them standing by but I'll go down there.
Well that's fine, Harry, I just want to make sure. He's very much interested in this thing and he doesn't want it to get away.

All right, fine and I'll take care of that. She'll have to sail in the regular way after a complete examination.

That's right and he said the examination ought to take a minimum of 48 hours.

Yes, all right, John, I get you.

Thank you very much Harry.

How are you?

I'm fine, thank you.

When does it look like it would break, John?

Well it looks blacker every minute to us.

I see he's called off that speech.

Yes, and they've ordered all ships to come back we understand.

He's got the EUROPA and the BREMEN out.

Yes, that was too bad.

Well I know but either one or the other is in the sea now; she'd get in - she might put in in Maine or someplace like that; I was figuring that out to-day.

Yes, well this other one is coming in, isn't it?

Yes, that's coming in; that's due in on Monday.

Yes, well they'll probably turn her around.

Good God, they'd have a hell of a job turning her around. I have turned to my family in Florence last night and they are on their way up to get into Ireland. The only thing I'm hoping is that he doesn't start it before Monday; they'll be in Ireland tomorrow night.
H: I see. Well it looks pretty black, Harry, it doesn't look a bit good to us here.
D: No, it don't look good to me either.
H: Right.
D: All right, fine, John, I'll be right on the job there.
H: Thank you so much. Goodbye.
D: Goodbye.
August 25, 1939.
6:05 p.m.

Hello John.

Hello

The Attorney General says O.K.

Fine.

So you go ahead, unless you've had orders.

Yes sir, well I've already done that.

All right.

I got Harry Durning on the telephone and he assures me that she will not be allowed to sail tonight.

That's right and the search can't be started until tomorrow, do you see?

I see.

Because we simply haven't got the men available to make that search tonight and just to keep the search going until - oh hell - all day tomorrow. In other words, I want the search kept up for 48 hours.

All right, fine.

(Laughs)

Fine.

And maybe the Health People may find something on board that's bad with the health of the crew.

All right, we'll find something anyway.

Yes, I want them held 48 hours and I'll send this letter over to you as soon as it's typewritten so that you'll get your definite authority under which you will have already taken action.

That's right - fine thank you. Goodbye.
August 25, 1939,
6:10 p.m.

Henes: Hello

Frank Murphy: Hello John.

H: Hello Frank.

M: Did you get the letter from the President?

H: Yes, I did - I've just gotten it. He dictated it to me over the telephone.

M: I think it's all right but we don't want to let him make any mistake. I think you ought to look over it carefully. It looks - it sounds discriminating to me - in sound.

H: Yes.

M: But I don't want him to make any mistake about it.

H: Well it seems to me that he's pretty well covered. I thought maybe you'd written that letter yourself, because he seems to be pretty well covered in that letter.

M: Yes, I think so too where he says - "If you have good reasons to believe" and then you can take this action.

H: Yes.

M: I wondered if - ah - when are you going to take any action or when will it become public.

H: Well I'm not going to let it become public at all.

M: Ah-ha.

H: I don't see any sense in letting a document like this get out at all.

M: That's right - no - but - ah - when are you going to - when are you going to act under it?
Well I've already acted. I called Harry Durnning in New York and told him to be sure that we had reason to believe that boat might be carrying some contraband and for him to be sure and make a thorough inspection. She wanted to get out tonight and he's not going to let her go out tonight until he has made a thorough inspection of her.

I see.

And I told him to take plenty of time to make that inspection.

John could you get a copy to me so I could study it a little in my room here and, if necessary, we could patch it up the little it has to be.

Yes, all right.

I think it's all right. He read it to me and we just talked it over and I told him that I thought it was all right.

Where are you now, Frank?

I'm in my Washington Hotel. Now if you send it over by a confidential messenger I could look it over during the supper period and then if I thought anything ought to be done about it tonight I could call you back, you see.

Yes, well now Frank I'll have it over there - where are you - in your room?

Yes.

I'll send it over there and have it there inside of four minutes.

All right, I think it's all right but.....

And, Frank, if you should want me tonight just call District 2626 - that's the Treasury - Secretary's operator and she'll get me.

Just a minute - District 2626. All right, John. Thank you very much John.

Thank you very much Mr. Frank. Goodbye.
August 25, 1939.
6:15 p.m.

Hanes: Hello - who's this George?
George: Yes.
Hanes: Hold on just a second George.
H: All right.
Hanes: Hello George, how are you?
H: First rate, thank you. John I had nothing particularly. Since I started to call you this afternoon - there was a difference in the market generally - it's much improved in every way and then I wanted you to know, in addition to the meeting I had yesterday afternoon, I had a meeting this morning with the private bankers and the investment bankers and went over the whole situation with them - largely giving them figures to show that mathematically there is nothing for anyone to be concerned about; trying to crystallize and bolster morale.

Hanes: Right.
H: And then I went into the whole question of my having an exchange committee and an over-all committee that I'm going to form Monday and then I had the Savings Bankers in in the afternoon and went over it all and I finally got - maybe the market got a little too bully.....
Hanes: You oversold yourself.
H: .....Whether that was due to or naturally the fact that there was a reaction I don't know and I don't care but what I want you to know is that the whole outfit here - that is the Commercial Banks, Investment Bankers, Savings Banks and all the rest are generally all definitely set now to sit tight and if we can relieve the market of their offering and then get the benefit of what they've agreed to do to tell all correspondent banks what they are doing I think we'll get a minimum of pressure.

Hanes: Well, George, I thought the market gave a damn good account of itself to-day.
H: Oh it did a good job.
Hanes: Yes, we're all satisfied here. We can't complain at all.
H: But I wanted to get you earlier and now it's a little late to do it but as long as I had to call in I thought I'd talk to you.
Hanes: Well I'm delighted you did. Now George I'll be here early in the morning so if you want me just holler.
H: Well New York is supposed to have a holiday tomorrow; we'll be open and I'll be down to the bank and we'll have our Security Department open.
Hanes: The over the counter market will be open in government bonds tomorrow.
H: Yes, but very inactive – very inactive.
Hanes: You don't look for any excitement then?
H: No I do not.
Hanes: Well Ronald Ransom told me this afternoon that he's going on down to Hot Springs tonight so we can get him on the phone if we have to.
H: Yes, well I think that's all right.
Hanes: Yes.
H: Now there's one more thing that I've spoken to you or somebody about. I've organized a foreign exchange committee here not to preempt any of the rights of the Treasury but I've got to have an organization here through which I can work in order to keep this thing orderly.
Hanes: Yes.
H: They've never had a foreign exchange committee in New York. We've always wanted it and this is a chance to get it.
Hanes: Yes. You mean the foreign exchange committee –
I hope to be able to maintain contact with the market if there's anything that you or we feel they ought to be told about, and there's also an opportunity for the market to communicate to us or to you in an orderly fashion.

Hanes: You mean a committee, a foreign exchange committee drawn from the bankers.

H: That's right. The bankers -

Hanes: Somebody that you can head up and talk with.

H: Yes. Headed up so that when Henry tells me he wants me to do so and so with the New York banks and bankers and the foreign exchange, I won't have to call up twenty-two people myself.

Hanes: Right.

H: And I got the commercial bankers to appoint their own representative, the private bank can appoint those, the foreign bankers to appoint a representative and then I got Bill Martin, the Stock Exchange, to appoint a representative from the Exchange.

Hanes: Right.

H: And I've got a very good committee as a result. We had a meeting this afternoon.

Hanes: Yes.

H: They made Loree of the Guaranty, chairman.

Hanes: Yes.

H: And the only thing they decided to do is right away to corral all the New York Exchange people to do two things, make it very definitely easy or possible for a man who's got a commercial transaction to execute to be able to get the Exchange Board whether it's back or forward, but at the same time to make it impossible for anybody who's trying to speculate to execute anything.

Hanes: Right.

H: And they're on the right track. It's a good crowd, and if there's anything about it, at all, in the papers tomorrow, I think the reaction will be good rather than bad.
Hanee: Yes, well it strikes me that way George. I think that's an excellent move.

Hi: Well, it so often happens that the Treasury has got in a pinch, that they've got some news they want to convey to the market and this is the only way we can do it in an effective manner.

Hanee: Right.

Hi: It will also enable these fellows, for the first time in the history to get together on the things that they are doing.

Hanee: Yes.

Hi: So they're all delighted and we're delighted and I think today's been a good one, so far.

Hanee: Yes. Well, let's cross our fingers for tomorrow.

Hi: You haven't got any dope have you?

Hanee: No I haven't George, I just - things do look blacker than I've seen before, I just don't - I've been trying to get optimistic here for the last ten minutes, but I'm damned - if I know all my colleagues around here, they've got their thumbs down on me.

Hi: I'm still optimistic.

Hanee: Are you?

Hi: Oh, I've been from the beginning.

Hanee: Well, it's like -

Hi: I admit that it's a hunch now, yet I don't see the way out, but I'm still -
TO Secretary Morgenthau
FROM Miss Michener

In accordance with your request to Mr. Haas, there are transmitted herewith two memoranda as follows:

1. Current developments in capital movements, gold, and foreign exchange, prepared in the Division of Monetary Research.

2. Notes on the Business Situation as of Friday, August 25, together with accompanying charts, prepared in the Division of Research and Statistics.
Subject: Current Developments in Capital Movements, Gold and Foreign Exchange

1. The inflow of capital into the United States was $43 million in the week ended August 16, 1939.

Foreign short-term banking funds in this country increased $42 million, of which $16 million was reported from England, $15 million from "Other Europe", $11 million from Far East and $8 million from France. Funds held here for Swiss account were reduced $8 million. American short-term banking funds held abroad declined $11 million reflecting primarily the liquidation of $9 million of loans extended by four New York banks to Mendelssohn and Company.

There were net foreign sales of domestic securities during the week of $12 million, of which $10 million was for Dutch account. The sales for Dutch account represented the sale of domestic securities held as collateral against the loans to Mendelssohn.

2. Net gold imports including changes in earmarking during the week ending August 23, 1939 amounted to 77.5 million, of which $68 million was for account of England.

3. Total gold held under earmark for foreign account declined $24 million in the week ending August 23, 1939; the amount held for the Bank of England declined $24 million and England's holdings as of that date were reduced to $71 million. On August 24, 1939 the Bank of England sold the remaining $71 million.

4. On August 25, 1939, sterling and other currencies broke sharply against the dollar. Sterling opened at $4.39, a decline of 29 cents, or 6 percent, from the previous close. Late in the afternoon it had recovered to $4.49.
The only major currencies which dropped proportionately with sterling were the Japanese yen and the nominal German Reichsmark. This is the first time that the German Reichsmark has depreciated since its establishment in 1924 and may represent a major change in Germany's financial policy. The French franc followed sterling only part-way, while the other members of the former gold bloc were firm against the dollar.

The Canadian dollar dropped 2-1/2 cents at the opening and then recovered to 98-1/2 at 3:10 P.M.

**Foreign Exchange Rates**

<table>
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<th>Aug. 24 close</th>
<th>Aug. 25 3:10</th>
<th>Percent change from previous close</th>
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<tr>
<td>Sterling</td>
<td>$4.68-1/8</td>
<td>$4.49</td>
<td>- 4.0%</td>
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<tr>
<td>Francs</td>
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<td>.0258</td>
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<td>.9863</td>
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<tr>
<td>Lira</td>
<td>.0526-3/8</td>
<td>.0526-3/8</td>
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Notes on the Business Situation
as of Friday, August 25, 1939

Commodity Prices

Both spot and futures commodity prices in the United States moved upward this week, with the rising tendency most evident after Tuesday, when the news of the Russo-German pact first affected the market. Sensitive prices in the United Kingdom have shown a very pronounced upturn. (See Chart 1.)

Important individual commodities whose futures price movements differed from the average were cotton, which tended downward, and copper, which held relatively steady. (See Charts la and lb.)

Wheat prices showed marked gains. The Federal Surplus Commodities Corporation reported the purchase of 1,000,000 bushels of Canadian wheat by England on Tuesday, for which five boats have been chartered in Montreal for September shipment. On the previous day, sales of nearly 3,000,000 bushels of Canadian wheat had been reported, the largest day’s business in some time.

Security Prices

Stock prices in the United States continued last week’s decline on Monday, rose somewhat after the report of the Russo-German treaty on Tuesday, and then fell considerably on Wednesday and Thursday. (See Chart 2.) The volume of trading was not heavy, however, and the low point reached for industrials, though below the June low, did not reach the bottom touched in April of this year.

In the United Kingdom and France stock prices this week have declined sharply. (See Chart 2.)

The yield on long term Government bonds (on inverted scale) showed pronounced downward movements this week in the United States, United Kingdom, and France. (See Chart 3.) In the United States a sharp decline on Thursday and Friday carried prices of many issues down considerably more than a point.
Trading by foreigners in United States stocks showed no definite tendency for the week as a whole. (See Chart 4.) On Saturday, Monday, and Tuesday, the balance was toward net sales, especially on Tuesday when the volume of sales increased and the United Kingdom was the biggest seller. On no day have the net sales equalled those of the two heaviest sales days of last month.

The discount rate of 4 per cent established by the Bank of England on Thursday raises the rate to a level not equalled since 1932. The decline of the pound sterling on Friday from \$4.68 to a low of around \$4.42 was accompanied by a decline in the franc from 2.64-7/8 cents to a low of around 2.51 cents.

**Business Activity**

The New York Times Index for the week of August 19, estimated from all components except cotton mill activity, was up 0.2. (See Chart 5.)

In spite of a sharp decline in automobile production and a slight falling off in "miscellaneous carloadings", the increase in other components was sufficient to raise the index slightly. The seasonally-corrected index for electric power production was higher than it had been since 1938. (The actual figure shown on Chart 5 is, according to the New York Times, an all-time high.) For the week of August 19 "all other carloadings" increased somewhat; lumber production and steel ingot production increased notably.

For the week of August 26, steel ingot production has shown a slight further increase. Automobile production increased to 17,465 units from 12,955 the previous week. The Automobile Manufacturers' Association expects that most plants will have nearly complete forces at work on new models within a week or so.

Apart from components of the New York Times Index, petroleum production declined steeply for the week of August 19, reflecting the closing of wells mentioned last week. Engineering contract awards were again off sharply. F. W. Dodge daily average figures for total construction contracts and for residential contracts, however, registered an increase during the first half of August as compared with the first half of July and with the month of July.
August 25, 1939

To: The Secretary

From: Mr. Hanes

At the suggestion of Mr. Edward R. Stettinius, Dr. Harold Moulton, Brookings Institution, came in to acquaint us with the program which is in the process of formation by the National War Resources Board, consisting of Mr. Edward R. Stettinius, Dr. Karl T. Compton, Mr. Walter S. Gifford, Dr. Harold G. Moulton, Mr. John L. Pratt, General Robert E. Wood, and Mr. John Hancock.

He stated that it was the opinion of the Board that upon the outbreak of war a certain price rise was unavoidable, and in the case of some farm products, would be highly desirable, so that they had no idea of recommending any price fixing at the outset in the event that we were remaining neutral. They did not anticipate any rapid general rise in prices. However, in case this country should become involved in a war, a program had been worked out with the aid of the Army laying down its specific schedule of the growth in our national forces, together with the constant demand for materials and supplies, including foodstuffs, clothing, arms, and ammunition. Such schedule calls for 4,000,000 men in the Army mobilised in the first 30 days; 1,000,000 men mobilised at the end of 90 days; 4,000,000 men mobilised at the end of the tenth month. In the interim all necessary equipment, supplies, etc., would be secured on a well-ordered and planned basis.

In order to effect such a mobilisation the War Resources Board assumes some responsibility for recommending control of prices on the basis that a general rise in the price level would not aid this country in prosecuting a war. On the other hand, with the increased volume which would be obtained by enormous war purchases, they are inclined to recommend lower prices with increased volume. In this recommendation it is their plan to ask key men enrolled in all kinds of industry to agree. In other words, they are going to try to sell the business people the idea which they firmly believe that after the war is over a tremendous inflation in prices represents (1) an enormous liability to the country and calls for a process of deflation which at the end causes everyone in the country untold suffering, (2) that in operating industry in this country during the war emergency at full capacity, no rise in the general price level would be allowed either for war materials or supplies, (3) this would make the problem of industry very much more simple in working with certain labor and the labor organizations, and they do not contemplate any rise in labor rates beyond a generally comfortable and satisfactory level. It is their opinion that some commodity price rise in farm products should be allowed and even encouraged, but in the case of no other supplies. In conclusion, in case this country should become involved in war, the emergency powers would have to be given by Congress to control the price level and keep it within reasonable bounds.

Query: Would this program as outlined above make it difficult for the Treasury to finance itself during war? Also, in the opinion of the Treasury, would such a program have any material effect upon the Federal revenue? I told Dr. Moulton we would give this matter immediate study.
At the suggestion of Mr. Stettinius, Mr. Harold Moulton, Brookings Institute, came in to acquaint us with the program which is in the process of formation by the National Resources Board, consisting of Mr. Edward H. Stettinius, Jr., Mr. Harold Moulton, Mr. Walter F. Draper, Mr. Harold C. Moulton, Mr. John Lee Pratt, General Robert R. Wood. He stated that it was the opinion of the Board that upon the outbreak of war a certain price rise was unavoidable, and that in the case of some raw products, would be highly desirable, so that there would be no idea of recommending any price fixing at the outbreak in the event that we were remaining neutral. They did not anticipate any rapid general rise in prices. However, in case this country should become involved in a war, a program had been worked out with the aid of the Army having shown its specific schedule of the growth in our national forces, together with the constant demand for materials and supplies, including foodstuffs, clothing, armaments, and ammunition. Such schedule calls for 100,000 men in the Army mobilized in the first 30 days; 1,000,000 men mobilized at the end of 90 days; 5,000,000 men mobilized at the end of the tenth month. In the interim all necessary equipment, supplies, etc., would be secured on a well-ordered and planned basis. In order to effect such a mobilization the War Resources Board assumes some responsibility for recommending control of prices on the basis that a general rise in the price level would not only in this country in procuring a war. On the other hand, with the increased volume which would be obtained by enormous war purchases, they are inclined to recommend war prices with increased volume. In this recommendation it is their plan to ask key men enrolled in all kinds of industry to agree. In other words, they are going to try to sell the business people the idea which they firmly believe after the war is over a tremendous inflation in prices represents (1) an enormous liability to the country and calls for a process of deflation which at the end causes everyone in the country untold suffering; (2) that in operating industry in this country during the war emergency at full capacity, no rise in the general price level would be allowed for war materials, or supplies, (3) war materials or supplies, (4) this would make the problem of industry very much more similar in working certain labor and the labor organizations, and they do not contemplate any rise in labor rates beyond a naturally comfortable and satisfactory level. It is their opinion that some commodity prices rise in farm products should be allowed and even encouraged, but in the case of no other supplies. In conclusion, in case this country should become involved in a war, the emergency powers would have to be given by Congress to control the price level and keep it within reasonable bounds.

Query: Would this program as outlined above save it difficult for the Treasury to finance itself during war? Also, in the opinion of the Treasury, would such a program have any material effect upon the Federal revenues? I told Mr. Moulton we would give this matter immediate study.
The President instructed the Treasury to examine the question of whether we had a right in the protection of the property and lives of the crews of belligerent vessels in the absence of a declaration of war by this country, to assume command of such vessels, put our own crew of seamen aboard, and take off the foreign crews. Since it is up to us to assume responsibility for their safety, the only way we can assume this responsibility would be that we actually put our own men aboard to watch them. I have taken this matter up with Huntington Cairns, who in turn is working with the Department of Justice and is finding out exactly what we could do in the absence of the declaration by the President of a national emergency. The President called attention to a method of handling and stopping boats that try to leave our harbors without clearance papers. According to his instructions, I have discussed the following memorandum addressed to Herbert C. Eaton, and we have an opinion from Frank Murphy (photostated copy attached hereto). The opinion was communicated to Collectors of Customs throughout the United States on Saturday morning, August 26th. The President requested State, Treasury, and Justice to cooperate in producing a list of things (1) which the President could do in the absence of a declaration of national emergency and also (2) which should be done which would require the declaration of a national emergency. This has been attended to, and Huntington Cairns has had several meetings with the Department of Justice and State officials, and we are now in the process of making up a complete program in accordance with the President's wishes.

The President advised me that someone in the Securities Exchange Commission had called him up to complain about the manner in which the Government bond market had been handled. I took quite a good deal of time explaining to the President the care with which we have been handling this situation and the absolute agreement of all experts in the Treasury and the Federal Reserve that the Government bond market was too high and that we did not see any reason to go in and try to protect the profit of the private banks which bought bonds much lower down - that the decline in the Government bond market had been very orderly, with no panic selling in evidence from any quarter. On the contrary, in the absence of selling by the large institutions and in several instances, notably the Guaranty Trust and the National City Bank, were large purchasers on a scale down. I reported to him that we had not bought any bonds up to the close of Friday for Government account, and that we did not intend to buy any except a very moderate amount, not enough to provide an orderly decline if they wanted to go down. Then I had finished, the President remarked he had told the Secretary the bond market was too high and that the manner in which we had handled it seemed sensible to him and he was completely satisfied.

The Cabinet meeting ended with the President advising the Commerce Department to work in close cooperation with the State Department in the matter of working out a program of operations in the event of the
declaration of war in which we were not a participant, so that we could operate under the Neutrality Act and continue to sell certain types of war supplies to friendly nations without violating the Act. He cited as an example the selling of airplane motors to private firms in Canada for motor boat use.

The balance of the meeting was taken up with a discussion by the President in general terms of his movements toward peace in connection with the latter note he had directed to Italy, Poland, and Germany.

The President handed me back the memorandum which was dated August 24th regarding Mr. Allan D. Jones as Collector of Internal Revenue at Richmond, Virginia, and he gave me instructions to proceed with this appointment. He also instructed me to proceed with the appointment of Mr. Elliott Heath as Collector of the Port at Norfolk, Virginia.

Attachments:

(1) Memorandum to Gaston.
(2) Opinion - Justice Department.
Mr. President,

I am aware of the procedures and the importance of following them. However, I have received a special assignment from the President himself, and I don't think we should be discussing that matter here.

Mr. President,

wishing you

Under Secretary Harris, the DE.

Recommendation to the Essex

Mr. Ransom: Trying to keep it steady and stable rather than one jumping a point and a half or a point and a quarter or a point or so. That is what makes people nervous. --

Mr. Ransom: These sudden jumps seem to be largely in just one issue when somebody's trying to get a buyer or seller, but it doesn't affect the whole average.

Mr. Ransom: So we will watch it during the day, and if something develops on the upside which is a bit disorderly, we will try and do something about it.
Memorandum to the Files:

Conversation between George Harrison of the New York Federal Reserve Bank and Mr. Secretary Hanes. Time 9:11 until 9:16.

Mr. Harrison: I just want you to know that we are standing by here in New York if you were wondering about the banks being open. We are open as far as bond market is open. I don't think there is going to be much activity. Our plan would be to start same as yesterday. Now, in the absence of any news I question very much whether there will be much doing.

Mr. Hanes: Yes.

Mr. Harrison: But if there is I just wondered if you had any slant on things to give me.

Mr. Hanes: I haven't, George. The situation doesn't look very different down here than it did last night. I believe the feeling in the market will be bad. I just have a hunch that something's going to happen in the next twenty-four hours. We ought to know the answer of this thing by then.

Mr. Harrison: I heard there was some criticism of our handling the market?

Mr. Hanes: I traced that down and I don't think it was nearly as serious as it sounded. I think it was just a comment more than a criticism.

Mr. Harrison: Thank you for what I heard you did.

Mr. Hanes: I am sure it turned out all right because he told another member of the Cabinet after the meeting he was entirely satisfied, he thought that was a great job. As a matter of fact, he said the damn things were too high anyhow. I didn't mean to start any rumpus.

Mr. Harrison: I did not think that it was. You know, when you are in the thick of a fight you want to be sure you are not cut on a limb. I think we made only one mistake, and that was that we did not let some bonds go yesterday around 1 o'clock.

Mr. Hanes: Well, you know the funny thing is Danny and I sat down and talked about that very thing, and we decided that we couldn't because we are dealing with trust funds and we don't think we can take a chance with them.
Mr. Harrison: If I had been operating it all alone and could have gotten on the telephone to check it with you - but by that time it would have been too late.

Mr. Hanes: We all had the same feeling.

Mr. Harrison: I don't think it made any difference. I say that was possibly a mistake.

Mr. Hanes: Yes.

Mr. Harrison: I am not sorry that we did not do it.

Mr. Hanes: Well, I don't think we need worry about that one. If we make no worse ones than that, I'll be very happy.

Mr. Harrison: Even at that, it followed the markets yesterday. Stock market went up pretty high, and dropped off at close below the high. Foreign exchange did exactly the same thing sterling did. It followed generally the markets yesterday. Bolstered things up very, very rapidly. Things eased off a little bit. On the whole I thought the performance yesterday was very satisfactory and a good lesson.

Mr. Hanes: Right. Well, George, Archie Lochhead is here. Let me see if he's got anything - - I thought maybe he had something on his mind, but he hasn't.

Mr. Harrison: Now if you have got any suggestions, even if it is something short of, let me have it, because I like to assume that we are playing hand in hand on things.

Mr. Hanes: You are absolutely right. We have confidence in you follows.

Mr. Harrison: Right.

Mr. Hanes: Thank you, George.
Office of the Attorney General  
Washington, D.C.  

August 26, 1939

The Honorable

The Secretary of the Treasury.

My dear Mr. Secretary:

Reference is made to your informal request for my opinion concerning the authority of the Commandant of the Coast Guard to issue the following instructions:

Collectors of customs have been advised to enforce strictly all laws and regulations concerning the clearance and departure of foreign vessels. You are instructed to cooperate fully with collectors and are authorized to use all necessary force within territorial waters and on the high seas to compel compliance with such laws and regulations.

The proposed instructions have my approval as to form and legality.

Respectfully,

[Signature]

Attorney General
of this fund is supposed to have had a salutary effect on exchange although there is no information readily available as to its operations. Only a comparatively small percentage of the amount subscribed was actually called for (about 25 percent), and not more than $10,000,000 was actually exported to furnish a basis for selling foreign exchange. On January 22, 1915, the managers of the gold pool decided to return to subscribers the balance of their payments.

5. The Federal Reserve Board discouraged the purchase of new foreign securities for a time. The Federal Reserve Board in a statement to the press on November 28, 1916, advised the banks of the country that "it does not regard it in the interest of the country at this time that they invest in foreign treasury bills." The Board modified its attitude through a statement on March 2 in which it said: "Since the 26th of November the country's gold reserve has been further materially strengthened and supplies a broad basis for additional credit. The Board considers that banks may perform a useful service in facilitating distribution of investments and in carrying out this process they may with advantage invest a reasonable amount of their resources in foreign securities."

6. Two months before the United States declared war the President stated that property of resident aliens would not be touched if the United States were to enter the war. On February 9, 1917 the President stated, "The Government of the United States will in no circumstances take advantage of the state of war to take possession of property to which international understandings and the recognized law of the land give it no just claim or title. It will scrupulously respect all private rights alike of its own citizens and foreign subjects." The President made this statement in answer to widespread withdrawals of currency and fear of confiscation of bank deposits belonging to alien residents in this country.

After Our Entrance into the War

1. On September 7, 1917, five 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.

On September 7, 1917 the Federal Reserve Board in conjunction with the Presidential Proclamation imposing restrictions upon the exportation of coin, bullion and currency, informed the member banks that the earmarking of gold from foreign individuals, firms, corporations or governments being equivalent to the exportation of gold, that in the public interest it requests that no more gold be earmarked for foreign account except upon approval of the Board.
Previously, on August 13, 1917, the Federal Reserve Board addressed a letter to all Federal reserve banks calling their attention to the question of shipments of gold and all remittances to foreign countries. The Board called attention to a letter received from the Secretary of the Treasury in which it was stated that: "It seems important that close attention be given to shipments of gold and to remittances to foreign countries and I am therefore requesting the Federal Reserve Board communicate with the Federal reserve banks urging that they keep in touch as closely as possible with transactions of this character and report them to the Board for my information as well as for the use of the Board."

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.

Secretary McAdoo announced on January 7, 1918 the Treasury had concluded through the State Department arrangement with the Argentine Government to stabilize exchange between the two countries.

On May 13, 1918 the Secretary of the Treasury, in a letter to the Senate in reply to an inquiry put before him with respect to foreign exchange, stated: "Agreements have been made with certain neutral countries in Europe and with countries in South America and elsewhere involving financial considerations and tending to protect the value of the American dollar. Agreements involving like considerations are in process of negotiation in other countries and in certain neutral countries steps have been taken to provide for payments required therein preliminary to the institution of negotiations.

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.

3. Foreign exchange control during the war

(a) The first step towards control of foreign exchange was advisory only, and related to exchange transactions for enemy aliens.

On May 10, 1917, the Federal Reserve Board acting upon advice received from the Department of State, transmitted to the Federal reserve banks for re-transmission to member and other banks in the several districts for their guidance a letter relating to transactions of American banks which involve dealings with alien enemies. The Board is advised that the State Department is anxious that bankers throughout the country should be warned that they should scrutinize most carefully every application made to them involving the transfer of funds to neutral European countries, which transfers seem intended to give aid to the
enemies of this country either directly or indirectly. The Board is further advised that the "State Department is interested in banking transactions between this country and Mexico or other Latin American countries."

(b) From the time we entered the war until January 26, 1918, there had been nothing to prevent banks from making remittances according to their own discretion and judgment except in cases where there was reason to suppose that the transactions proposed to them were for account or benefit, direct or indirect, of an enemy alien in which event it was necessary to bring the matter before the War Trade Board.

(c) In January 1918 the Federal Reserve Board, acting for the Secretary of the Treasury, established supervision over all foreign exchange transactions and prohibited transactions which directly or indirectly were for the benefit of enemy countries. By terms of the circular issued to the public on January 26 under the authority of the administrative orders of October 12, 1917 and January 26, 1918 and the order of the Secretary of the Treasury of November 23, 1917, which provided for definite regulation of foreign exchange transactions, the Federal Reserve Board put into practical operation supervision over foreign exchange. The supervision called for the creation under the direction of the Federal Reserve Board of a system of regular reports submitted by all persons engaged in foreign exchange business of every description and enabled the Board to maintain a careful oversight or check upon practically the whole exchange business of the country. Licenses for foreign exchange were regularly issued to applicants under provision of the new order.

4. On July 9, 1917 the President issued a proclamation under the authority of the Act of June 15, 1917, imposing restrictions on certain exports and providing for licensing of exports from the United States. The licensing of exports was under the jurisdiction of the Department of Commerce.

5. 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.

On January 27, 1918 the Secretary of the Treasury issued a statement "In the pending action by Congress I have requested the Federal Reserve Board to pass upon such new issues of securities as may be submitted to them or referred to them by me and advise whether or not such expenditures or capital on such issues of new securities should be made." To carry out this work the Federal Reserve Board created a Capital Issues Committee which passed upon cases voluntarily submitted to it.
In order to give this plan the sanction of law, the Senate Committee consisting of 7 members appointed by the President, having the power of the committee of the whole, to inquire into the conditions of the said corporation, and to determine whether or not such sale was complete, to submit to the committee proposed or any security issues. In carrying out the provisions of the bill, the committee would be consistory to the wishes of the plan.

The committee considered nearly 2,000 applications from September 21, 1916, and these applications were disapproved by the committee. About 20 percent of these applications were disapproved.

While the committee was given power to investigate proposed sales of securities and to determine whether or not such sales were complete, the committee was not therefore forced to rely upon the petition of persons applying for permission to issue such securities.

The committee, however, the power of the committee, without first obtaining the approval of the Senate, to issue such securities, could not be exercised without violating the wishes of the plan.
SECRETARY OF STATE,
Washington.

1266, August 26, 1 p.m.
FOR TREASURY FROM BUTTERWORTH.

The Emergency Powers Act which was passed on Thursday night authorizes the Government to commander and requisition property of all kinds, to enter and search any premises, to delegate powers to any person or organization and to conduct legal actions in camera. It also gives the Government blanket powers to do anything which may be "necessary or expedient for securing the public safety, the defence of the realm, the maintenance of order and the efficient prosecution of any war" the only exception being the power to conscript men for military and industrial purposes. It is under this act that emergency financial measures can be taken by issuing orders in council which will go into force at once and will be ratified by Parliament within 28 days and prolonged on expiration by Parliamentary resolution.

Phillips said today that for the moment nothing was being done and that he would keep in touch with me. The press comment.
-2- #1266, August 26, 1 p.m., from London

comment this morning on the withdrawal of official support to sterling indicates that the move was a surprise to the City which had expected further measures of exchange control to protect the gold resources but most financial writers allege that for some time sterling has been "overvalued in terms of the dollar" and the fact that yesterday's net movement resulted in a fall of only about 4 1/2 percent was taken as an indication of relative strength, one financial daily notes that there was some heartburning over the profits which must have accrued to bears of sterling while those who had observed the government's request to refrain from unnecessary purchases of foreign currency suffered losses, but in general the move has been received as more desirable than exchange control so long as a state of war does not actually exist. All financial writers emphasize that the parties to the Tripartite Agreement gave their approval to the move. With yesterday afternoon's optimism considerably lessened the foreign exchange market has been fairly active this morning, deals being numerous but the individual amounts small, the rate fluctuating between 4.36 and 4.41 with most of the business done at around 4.40 and sterling closing 41-42. 65 bars of gold were sold at the fixing, the prices of 155s giving a discount of about 66.8d market buyers and sellers accounting for the whole turnover. After fixing
-3- #1266, August 26, 1 p.m., from London
fixing transactions were small and done at around the
fixing price.

KENNEDY

WWC
Dated August 26, 1939

FOR THE TREASURY

Extremely active exchange transactions between banks this morning showed considerable nervousness but nothing approaching a panic. The pound was quoted at 4.40 to the dollar in early trading, dropped to 4.36 and closed at 4.38½. The French fund was a buyer of sterling in considerable quantities at 175.24. The franc against the dollar was quoted at 39.75 and closed at 40.05. By way of converting part of its sterling into dollars the fund purchased 2,700,000 through the Guaranty Trust. There were no forward quotations and no arbitrage operations, the money market was practically nonexistent. The belgu, Swiss franc and florin continued to follow the dollar.

An official announcement was published this morning to the effect that the Minister of Finance does not envisage, "under the circumstances", the introduction of moratorium measures or the limitation of withdrawals of deposits in banks or savings banks.

BULLITT
PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: August 26, 1939, noon

NO. : 655

FROM acting secretary Hanes for Ambassador Bullitt.

Reference is made to your telegram No. 1591. Such payments from the Stabilization Fund are made only in accordance with personal arrangements by Secretary Morgenthau. I prefer that this matter be held up until his return in view of the circumstances.

HULL

EA: LNW
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: August 26, 1939, 10 p.m.
NO.: 1609
FOR THE TREASURY.

Bearing in mind the telegram of April 12 from the Department, No. 261, we called on Rueff this afternoon. We asked whether any plan of action had been formulated by the French with respect to possible requisition or liquidation of American securities under French ownership, French bank balances, and other investments in the United States. A firm negative reply was made by Rueff. He said that the Britie had drawn up certain specific plans last year, and he was of the opinion that in Great Britain the knowledge of their existence had had a bad psychological effect.

It is the opinion of the Embassy that this "unsuccessful precedent" has been a determining factor in influencing the French against adopting any similar course of action at the present time, or even of admitting that the matter is being considered.

We told Rueff that this subject was one which naturally held considerable interest to the United States Government. We hoped and felt confident that we would be fully consulted prior to any action in this connection, in view of the closest financial relations existing between the United States and France. We were assured by Rueff that should the adoption
adoption of such measures be made necessary by subsequent events, he would bear very much in mind our desire for prior consultation.

Rueff mentioned that France today is in a comparatively strong financial position. It is our belief that nothing has happened to change the viewpoint of Reynaud and other French financial officials as set forth in the Embassy's telegrams No. 620 of April 3 and No. 722 of April 12.

It seemed to us that Rueff was quite satisfied with the financial situation since the British decision of the night before last. He said that in trading yesterday and today France had gained about 350,000,000 francs in gold. However, as to the international outlook, he seemed to be obviously pessimistic, possibly because the printing office had just informed him that three more classes – an additional 700,000 men – were being called to the colors.

At the French Finance Ministry, the corridors were filled with small groups of serious-faced employees, some of them being in uniform, who glumly discussed the situation. Their air of quiet determination impressed us. Ardant and some of his banking associates were there, waiting to see Rueff; Ardant said that the Societe Generale (he is the Managing Director) plans to go ahead with its idea of setting up a branch in New York – reference telegram No. 1403 of July 28 from the Embassy. Ardant said that Chadeneau would probably go
go to the United States in a few days "unless of course he is mobilized"; if he does go, he plans to call at the Treasury in Washington.

END OF MESSAGE.

BULLITT.
PARAPHRASE OF EXCERPT OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm, Sweden

DATE: August 26, 4 p.m.

NO.: 59

The Riks Bank, pursuant to the action of the Bank of England yesterday, is not authorizing purchases of foreign exchange except in the case of an emergency. Foreign exchange sales are still at the same rate as of August 24th.

The Legation has been confidentially informed by the Governor of the Riks Bank that he will call a committee meeting for tomorrow. At the meeting he intends to recommend that there be no increase in the rate of discount in this country.
GRAY

Berlin

Dated August 26, 1939

Rec'd 4:30 p.m.

Secretary of State

Washington

925, August 26, 5 p.m.

Number 57. HEATH FOR TREASURY.

In spite of the presumable increase in Government outlay quasi loans as the result of the mobilization of the German army the Reichsbank statement for the third week of August shows no increase in currency circulation the total being 10,889 million marks as compared with 10,895 million marks at the middle of the month. Normally, however, the third week should show a considerable decline in circulation. The Government, however, indulged in considerable direct borrowing from the Reichsbank the item "miscellaneous assets", which covers the Government's operating credits, showing an increase of 318 million marks over the position of August 15th.

KIRK

HPM:GW
OFFICE CORRESPONDENCE

TO: CONFIDENTIAL FILES
FROM: L. W. Knoke

DATE: August 28, 1939

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF FRANCE.

Mr. Cariguel called at 1:07 p.m. Owing to the French censorship, he could not get a cable through to us in time, so would we please take his instructions over the telephone as follows:

"Sell francs against dollars for our Account 5 on the basis of 175.22 to the pound net to us. Buy francs against dollars for our Account 5 on the basis of 175.23 to the pound net to us.

We are today buyers of fine gold at 45,854 per kilo, sellers at 46,057 delivery Paris."

He added that they were now trying to arrange with the censors for prompt dispatch of their cables in the future.

There was absolutely nothing new that he could tell me. He had spoken to London a few minutes ago and they also knew nothing.

LWK KW

Regraded Unclassified
Saturday, August 26, 1939

Mr. Lochhead called Mr. Briggs, of the State Department, to inform him of a telephone call he had received from Mr. Alonso Irigoyen, Financial Counselor of the Argentina Embassy, at 10:25 A.M. August 26, 1939, from Argentina. Mr. Banes was present during the conversation.

Mr. Lochhead told Mr. Briggs that Mr. Irigoyen called in behalf of the Finance Minister to inquire as to what we intended to do in the financial markets in the event of the outbreak of war.

Mr. Irigoyen said they were wondering what they should do - declare a holiday or close the markets and wanted to know if we had decided to close our markets or declare a holiday in the event of war.

Mr. Lochhead told Mr. Irigoyen that we had studied the various plans and had canvassed the situation thoroughly, but action would depend on what the circumstances were in our market if war did break out. He also told him that as far as possible we were going to try to keep business going as usual. Mr. Irigoyen seemed to be satisfied with that.

Mr. Irigoyen asked how things were here. Mr. Lochhead said that all he could tell him was news of a more or less general nature and as far as real political news, he was unable to advise him. Mr. Lochhead said there was a little bit less pessimism this morning than last night and that was about as far as he could go.

Mr. Lochhead said he knew they had sold 250,000 pounds yesterday and had been trying to buy gold with it in London.
Mr. Irigoyen wanted to know Mr. Lochhead's opinion as to what would happen to sterling, and Mr. Lochhead said that was something only the British could say, and it would depend on whether or not a war broke out.

Mr. Irigoyen was inclined to be pessimistic, but said they did have some fair balances for awhile.

Mr. Irigoyen said he was also communicating with the Argentine Ambassador and Mr. Lochhead told him he thought it was very wise to communicate with the Ambassador and let him advise them along European or political developments.

Mr. Irigoyen said all he wanted to inquire of Mr. Lochhead was on strict financial details.

Mr. Lochhead told him we would be glad to discuss any strictly financial questions with him.
Shanghai, August 28, 1939.

JAPANESE REVIVING PEACE CAMPAIGN WITH CHINA

In negotiating peace with China, Japan should not deal with any party other than Gen. Chiang Kai-shek, according to the opinion of Gen. Chu Chi-hsueh (土 楊), Commander of Japanese Army in the Shanghai-Hangchow area. The above is the gist of his conferences with Mr. Chai Chang-jen (蔡 常軍), a leading Formosan politician in the past few days during the latter's visit to his headquarters in Hangchow.

Mr. Chai returned from Hangchow on August 23rd and is planning to go to Tokyo by way of Formosa in a few days. He expects to confer with various government leaders there concerning the question of peace with China. In view of the Russo-German rapprochement, Mr. Chai believes that Japan is now ready to negotiate peace with China. Many drastic measures planned by the Army and Navy to harass the International Settlement and French Concession have been cancelled on account of the change of German stand. Wang Ching-wei is losing ground. It was originally planned by the Army and Wang's group for Mr. Wang Ching-wei to issue an important pro-Japanese declaration to the nation on September 1st as a preparatory step for the convention of the proposed people's assembly and the organization of his federated government, but it is believed the step will be postponed, if not given up, pending further international developments.

The Japanese Special Service leaders are holding a conference this morning to discuss further peace terms to offer Ch'ungking. They are exchanging views and awaiting instructions from Tokyo. In a day or two, they will approach Col. Sun Li-ping (孫 立平), Ch'ungking's Waichiao-pu representative in Shanghai, and request him to convey their proposals to Gen. Chiang Kai-shek.
August 26, 1939.
12:23 p.m.

H.M.Jr: I'm ever so much obliged for all the reservations you got.

Hanes: Yes, well those reservations will be in the hands of Joe Kennedy personally.

H.M.Jr: Hello

H: Hello

H.M.Jr: I don't think I'll use them but it's nice to have them.

H: Well they are there and they will be in his hands personally and you can let me know Monday or Tuesday........

H.M.Jr: That's right.

H: .....just what you're going to do and then I'll instruct Joe what to do with them.

H.M.Jr: Oh, they're in Joe's hands.

H: That's right. He's got the actual tickets and nobody knows that except you and me and Joe.


H: And if you'll let me know Monday or Tuesday if you don't want them then I can tell Joe what to do with them.

H.M.Jr: I'll let you know in plenty of time.

H: Righto. Now everything here is a good deal easier this morning.

H.M.Jr: Yes.

H: Government bond market is strong and our stock market is up $5.00 yesterday and to-day.

H.M.Jr: What's that?
H: The stock market I say is up $5.00 yesterday and today.

H.M.Jr: Gone up.

H: Yes, it's up two to two and a half points today and it was up about two and a half points yesterday.

H.M.Jr: Yes.

H: So the conditions here look very much easier and there are a good many more signs of hope today than there were last night.

H.M.Jr: Well I'm delighted.

H: The last thing we heard broadcast from Berlin just about a minute ago was that Henderson is on his way back to Berlin but he won't get there until late tonight and probably the conference won't take place until tomorrow morning.

H.M.Jr: I see.

H: Now we haven't had any other news of any other significance. Things are very quiet here. Is there anything specific you want to ask either Archie or Danny Bell or Herbert - we're all here.

H.M.Jr: Well the only thing I know is this that four heads of the Central Banks in Scandinavia are meeting secretly in Stockholm tomorrow.

H: Yes.

H.M.Jr: And it's just what they're going to do about their relationship to the pound.

H: Right.

H.M.Jr: And naturally they're very much worried about it.

H: Yes.

H.M.Jr: You can't get any money here.

H: Is that so?
H.M.Jr: No - they've just cut down. I got a - I didn't get a hundred dollars cashed but I'm all right - but you can't get any money here.

H: Is that so?

H.M.Jr: Otherwise, I don't know anything.

H: Well if you decide to go to London if you want any money or anything of that kind done for you just let us know and we'll have it arranged so that Joe will have it in hand.

H.M.Jr: Oh well I - they just pass it from one hand to another. They like me here.

H: I see (Laughs)

H.M.Jr: And I don't - ah - I'm just traveling on my face.

H: I get you - well that's a good way to go. (Laughs)

H.M.Jr: Here are the plans - unless something changes - so that you'll know.

H: Right.

H.M.Jr: The family will go on this ship the BERGENSFJORD and I expect to go up on the cutter, see?

H: Right.

H.M.Jr: And that's what I have in mind but I figure when we get up somewhere around Nova Scotia they can take me off and I can make it in five days.

H: That's right.

H.M.Jr: The other way I wouldn't get there until about September 9th.

H: Yes.

H.M.Jr: And Jake Viner is here with me.

H: Oh good.
H.M.Jr: And he's coming with me on the cutter.
H: Fine.
H.M.Jr: So I'll have company.
H: That's fine. Well I think all arrangements there - I'm going to ask Herbert to talk with you about that because he's been in touch with them this morning and he knows exactly where the cutter is and what the plans are so unless you want me - I think we're going to have a quiet time here for the next two or three days, Henry.
H.M.Jr: Yes.
H: It doesn't - I talked with Feis, over at the State Department, and they feel that way too; they think the thing is delayed now at any event; for the next two or three days we'll just be in suspense but there'll be nothing exciting.
H.M.Jr: Well it's been a comfort to me to have you there John and I think you've done everything fine, as far as I can tell.
H: Well I think everything is going along as smoothly as it could be. I'm keeping a good record for you so you'll have everything before you when you get back.
H.M.Jr: Well that's fine.
H: And here's Herbert now and he'll tell you about the CAMPBELL.
H.M.Jr: Thank you.
Gaston: I think, Henry, you probably know all I know about it. The last report I got was that the CAMPBELL would probably make Bergen on Monday afternoon.
H.M.Jr: No, I didn't know that; they didn't let me know that.
Gaston: Well that's the expectation and they said they were cabling you in response to your cable that it would take about two hours for her to refuel and provision and - if prior notice had been given there - and they were going to communicate directly with the Consul to make arrangements.
H.M.Jr: No I didn't know when she was going to get in. They think they can make it Monday afternoon.

G: Yes, he promised to give me a later position but I haven't got it yet but Covell told me this morning that they hoped to make it Monday afternoon.

H.M.Jr: All right.

G: My own impression has been that it would be late Monday evening. If I get a later position and time I'll either cable or have them cable you.

H.M.Jr: Well if you could get off something - if they could get off something up until midnight tonight, if they had anything, I'd like it.

G: Yes and then you'd get it the first thing in the morning.

H.M.Jr: Yes. Now would you do something for me, Herbert?

G: Yes.

H.M.Jr: Will you send a telegram to my parents at Bar Harbor, telling them that the family is coming home by the BERGENSFJORD - don't say - just say family and that we're all well.

G: Yes.

H.M.Jr: And something to Mrs. Josten, Falmouth, Massachusetts - the same thing.

G: What's the address - Massachusetts?

H.M.Jr: West Falmouth.

G: West Falmouth. West Malmouth, Massachusetts - Mrs. Werner Josten.

H.M.Jr: Yes. I don't think I'd say anything to anybody outside the Treasury about my coming home on the cutter until I'm actually on board her.

G: Right.

H.M.Jr: Don't you think so?
Yes - I think so - that's the idea we've had.

Now I've made inquiries - you'd better know this - I've asked the Legation here and I've asked the head of the Travel Bureau if there are any Americans who can't get accommodations and want to go home and everybody that wants to go home is being taken care of.

Everybody is being taken care of - ah-ha.

Butterworth said that he thought I might be criticized going home on a cutter.

Ah-ha - yes, well I don't think so.

The situation here is quite different than it is in England. In England they have a thousand Americans that want to get on board ship and can't.

Yes.

He said there's nobody that wants to get on board a ship that can't get passage.

In Norway, you mean.

In Norway.

Yes - ah-ha.

Anybody that wants to get passage - the boat is here that can take them. Furthermore - after all - I'm not - it isn't as though I was going home on a pleasure jaunt.

No - no.

It's lousy - I'm a lousy sailor and I expect to be sick all the way.

Yes (laughs) well -

The only person who raised it was Butterworth so I took trouble to inquire and there's nobody around here who can't get on a boat - who has the price - that can't get accommodations.

Yes.
H.M.Jr: So I don't see why anybody should criticize me, do you?

G: I don't think so - none of us think so.

H.M.Jr: Quite the contrary - I think I ought to get Secret Service costs for being seasick for three days.

G: Yes, I think so; we might be able to arrange it.

H.M.Jr: All right.

G: Johnny wants to speak to you again.

Hanes: Henry?

H.M.Jr: Yes.

H: I just wanted to make sure that you understand, on this financing business, we're doing nothing until we communicate with you in any event but since you're going to leave there - say on Monday we'll probably be in touch with you on Monday; we might call you - what if we arrange to call you say Monday at noon.

H.M.Jr: I don't think you'll be able to get me - hello.

H: Yes.

H.M.Jr: And I think that we'd better use - I'll be on the cutter.

H: We use Coast Guard - radio - I mean regular radio service.

H.M.Jr: Coast Guard radio.

H: Right.

H.M.Jr: And I talked to Bell about timing - did he tell you?

H: Yes.

H.M.Jr: And I thought we ought to handle it the way we did last year.
H: All right, that suits us and Danny says that's fine. I'll let you talk with Danny just for a minute, if you will, because he may want to add something to what I said but, in the meantime, we'll communicate with you before we do anything.

H, M, Jr: Yes I'd like to be — hello — Johnny.

H: Yes.


H: Yes. Yes — hello

H, M, Jr: Johnny — is this Johnny?

H: Yes that's right, Henry, go ahead.

H, M, Jr: If you handled it the way we did last year you wouldn't have to make up your mind until the day after Labor Day.

H: That's right.

H, M, Jr: And I ought to be back by then.

H: Why, yes certainly — you ought to be back by the week end — Saturday or Sunday anyway.

H, M, Jr: Sure.

H: So that will be all right. We'll be in touch with you by radio and if any situation changes at all here we'll keep you posted.

H, M, Jr: I'll tell you now a two and a half year 30-35 is a hell of a long bond at 2 1/2%.

H: Yes (laughs) we agree with that.

H, M, Jr: While it might sell at a premium it would be awfully easy for it to go below par.

H: Right, we agree with that.

H, M, Jr: Yes.
H: Well now then you won't hear from us; unless there's something drastic why we'll call you - I mean we'll cable you but everything else is fine and I hope you have a nice trip home.

H.M.Jr: Are the people - you say they're much quieter and the market being up is the best answer, isn't it?

H: That's right and everybody around this morning seems to be a little bit more comfortable. Now that goes for the State Department too.

H.M.Jr: Do they know what Henderson brought back?

H: No.

H.M.Jr: They don't.

H: No, we've had no word from them on that yet. He hasn't gotten back yet, Henry.

H.M.Jr: Oh.

H: We just heard a broadcast from Berlin a minute ago and he is not due in Berlin until late tonight so that the conference probably won't take place until early tomorrow morning.

H.M.Jr: Well I just thank everybody in the Treasury for what they've done.

H: Well, Henry, you're going to cable me definite instructions on the Southampton business.

H.M.Jr: Well I figure this way, Johnny, if I cabled you Monday evening....

H: That's right.

H.M.Jr: Hello

H: Yes.

H.M.Jr: ......you'd get that Monday.

H: That's right.

H.M.Jr: So they'd have plenty of time to give that to somebody on Monday and whoever gets it would be delighted to get it.
Right. That's giving us plenty of time so you just let me know. Even Tuesday gives us plenty of time.

Well I'd let you know so you'd know Monday but I'm sure that anybody would be tickled to death to get those two tickets.

That's fine. I'll take care of it then.

What we arranged here with the British Government was that if I wanted to go to London they were going to fly me over. That was the way - I was going to go right to Southampton.

I see.

But the way I felt and I'll just take a minute for me to check - I thought for me to go to London with all this trouble with the pound and only knowing part of the story would be a great mistake.

Well I agree with that.

See?

I agree with that perfectly.

I mean I'd drop in there and Sir John Simon would grab hold of me and I don't know what's happened.

That's right. Well I'd stay out if you can.

Righto.

Now when does the BERGENSFJORD sail?

She sails on the 31st from Bergen.


And arrives on the 9th.

All right fine.

The family has good accommodations; they are well taken care of and - it's a little bit of a boat but she's all right.
H: That's fine. Now I haven't anything more. I think everybody is thru here so we'll wish you a happy journey home.

H.M.Jr: Righto.

H: Goodbye.

H.M.Jr: Goodbye.
VII

Secretary of State
Washington

1279, August 27, 8 p.m.

FOR IMMEDIATE DELIVERY TO THE ACTING SECRETARY OF THE TREASURY FROM BUTTERWORTH.

"British Treasury has decided, in view of movement of events, to require British residents to declare certain foreign securities and not to dispose of such holdings without permission. British Treasury states there is no present (repeat present) intention to actually acquire them from holders or to dispose of them. Because of the importance of this step to us I am cabling both the regulation made under the Emergency Defence Act and the related Treasury order. These will be in effect when the city opens tomorrow morning; they are being postdated to August 25. His Majesty, in pursuance of section one of the emergency powers (Defence) Act, 1939, and of all other powers enabling him in that behalf, is pleased, by and with the advice of his Privy Council, to order, and it is hereby ordered, that the following regulations shall have effect:

1. - (1) The Treasury may by order direct (A) that,
VM -2- 1279, August 27, 8 p.m., from London.

subject to any exemptions for which provision may be made by the order; no person shall, except with permission granted by or on behalf of the Treasury, sell, transfer or do anything which involves the creation of a charge on securities of any such class as may be specified in the order, being a class of securities which, in the opinion of the Treasury, are likely to be marketable outside the United Kingdom, and I repeat United Kingdom, and

(B) That the owner of any securities of the said class shall, in such manner and within such period as may be specified in the order, make a return to the Bank of England giving such particulars with respect to those securities as may be so specified.

For the purposes of this paragraph a person who mortgages or pledges a security shall be deemed thereby to create a charge on the security.

(2) At any time while an order made under the preceding paragraph with respect to securities of any class is in force, the Treasury, if they are of the opinion that it is expedient so to do for the purpose of strengthening the financial position of the United Kingdom, may, by an order made generally with respect to any specified securities of that class, or by directions given with respect to any securities of that class of which any particular person is the owner.
owner, transfer to themselves the securities to which the
order or directions relates or relate, at a price specified
in the order or directions being a price which, in the
opinion of the Treasury, is not less than the market value of
the securities on the date of making of the order or the
giving of the directions.

(3) Where any order is made, or any directions are
given, under the last preceding paragraph with respect to
any securities,

(A) Those securities shall forthwith vest in the
Treasury free from any mortgage, pledge or charge, and the
Treasury may deal with the securities as they think fit;

(B) The owner of any of those securities, and any
person who is responsible for keeping any register or book
in which any of those securities is registered or inscribed
or who is otherwise concerned with the registration or in-
scription of any of those securities, shall do all such
things as are necessary or as the Treasury or the bank of
England on their behalf may direct to be done for the purpose
of securing that the security and any document of title re-
lating thereto will be delivered to the Treasury or to such
person as the Treasury may direct and, in the case of any
registered or inscribed security, that the security will be
registered or inscribed in the name of the Treasury or such
person
person as the Treasury may direct.

(4) The duty to deliver any security under the last preceding paragraph shall include a duty to do all such things as are necessary to secure that any dividends or interest on that security becoming payable on or after the date of the making of the order or the giving of the directions will be paid to the Treasury; and where, in the case of any security payable to bearer which is delivered in pursuance of the said paragraph, any coupons representing any such dividends or interest are not delivered with the security, such reduction in the price payable therefor shall be made as the Treasury think fit:

Provided that, where the price specified in the order or directions in relation to any securities is ex any dividend or ex any interest, this paragraph shall not apply to that dividend or interest or to any coupon representing it.

(5) A certificate signed by any person authorized in that behalf by the Treasury that any specified securities are securities transferred to the Treasury under this regulation shall be treated by all persons responsible for keeping any registers or books in which the securities are registered or inscribed, or who are otherwise concerned with the registration or inscription of those securities, as conclusive evidence that the securities have been so transferred.

(6) This
VM -5- 1279, August 27, 8 p.m., from London.

(6) This regulation shall not apply to any security if the Treasury are satisfied that at all times since the beginning of the twenty-sixth day of August, Nineteen hundred and thirty-nine, all the persons interested in the security, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the said day, but including any persons beneficially interested therein under a trust, were not resident in the United Kingdom.

2.- (1) Stamp duty shall not be chargeable on any security by reason only of the assignment, transfer or negotiation thereof to the Treasury, and shall not be chargeable—

(A) On any instrument whereby any security is assigned or transferred to the Treasury (whether on sale or otherwise), or

(B) on any contract note for, or relating to, any sale of securities to the Treasury.

(2) This regulation applies only in relation to assignments, transfers, negotiations or sales of securities effected during the continuance in force of this regulation, whether in compliance with these regulations or otherwise.

(3) In this regulation the expression "Contract Note" has the meaning assigned to that expression by subsection (3) of
(3) of section seventy-seven of the Finance (1909-10) Act, 1910.

3. The provisions of Part V of the defence regulations, 1939, shall apply for the purpose of the enforcement of these regulations, and otherwise in relation thereto, as if any reference in the said Part V to those regulations include a reference to these regulations.

4. In these regulations, unless the context otherwise requires, the following expressions have the meaning hereby respectively assigned to them, that is to say:-

"Owner," in relation to any security, includes any person who has power to sell or transfer a security, or who has the custody thereof, or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, or who has any other interest therein; and

"Security" includes shares, stock, bonds, debentures, debenture stock and treasury bills, but does not include a bill of exchange or promissory note.

5. These regulations may be cited as the Defence (Finance) Regulations, 1939. Butterworth.

KENNEDY

DDM
Secretary of State
Washington.

1279, August 27, 8 p.m. (SECTION TWO).

Treasury Order.

Whereas it is provided by paragraph (1) of regulation Q of the Defence (Finance) Regulations 1939 that the Treasury may by order give directions prohibiting, except with permission, dealings with securities which in the opinion of the Treasury are likely to be marketable outside the United Kingdom and requiring owners of such securities to make a return to the Bank of England, and whereas the Treasury are of opinion that securities of the classes to which this order applies are likely to be marketable outside the United Kingdom.

Now, therefore, the Lords Commissioners of His Majesty's Treasury in pursuance of the said paragraph hereby make the following order:

1. No person being an owner of securities of any of the classes to which this order applies shall on or after the date of this order, unless permission has previously been granted
granted by or on behalf of the Treasury, sell transfer or do anything which involves the creation of a charge on any securities of the said classes.

2. The owners of any securities of the said classes shall before the expiration of one month from the date of this order make a return to the Bank of England (on a form which may be obtained from any branch of a bank or any stockbroker in the United Kingdom) giving the following particulars with respect to those securities, that is to say:

(A) The full name and address of the owner by whom or on whose behalf the return is made.

(B) A description of the security in full.

(C) The nominal amount of the security.

(D) The place where the security is deposited.

(E) The full name and address of the person for whose account the security is held (if other than the owner making the return).

3. The classes of securities to which this order applies are the following, that is to say, securities in respect of which the principal, interest of dividends are payable in the currency of any of the following countries:

- Argentina
- Belgium
- Canada
VM -5- 1279, August 27, 8 p.m. (SECTION TWO), from London.

Canada
France
Holland and the Dutch East Indies
Norway
Sweden
Switzerland
United States of America
Or in respect of which the holder has an option to require the payment of principal, interest or dividends in the currency of any of those countries.

4. This order may be cited as the securities (Restrictions and Returns) Order 1939. Futterworth.

KENNEDY

CSB
Secretary of State
Washington.

Dated August 27, 1939
Reo'd 4:20 p.m.

1279, August 27, 8 p.m., (SECTION THREE).

The following paragraphs from the press handout are of interest:

"Permission will, however, be granted until further notice for the transfer of securities of these classes to persons resident in the United Kingdom, provided that an application has, prior to the transfer, been made to and approved by the Bank of England. Such applications must be made to the Bank of England by a bank or stockbroker.

Securities affected by the order will not be good delivery on the stock exchange unless accompanied by a form bearing the Bank of England's certificate that the name of the new owner of the securities has been registered.

If it is desired to transfer securities affected by the order to a person not resident in the United Kingdom, special application must be made to the Bank of England by a bank or stockbroker.

Definition of owner

Special attention is drawn to the fact that the Defence
(Finance) Regulations 1939 define the term "Owner" in relation to any security to include any person who has power to sell or transfer the security, or who has the custody thereof, or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, or who has any other interest therein.

Non-resident owners.

The order referred to above does not apply to any security if the Treasury are satisfied that at all times since the beginning of the 26th day of August, 1939, all the persons interested in the security, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge or charge created before the said day, but including any persons beneficially interested therein under a trust, were not resident in the United Kingdom. Accordingly, no action has to be taken by such non-resident owners." (Butterworth)

KENNEDY
Secretary of State
Washington

RUSH
1297 August 28, 7 p.m.
FOR TREASURY FROM BUTTERWORTH.

The pound opened at 4.36 and hit a low in the morning of 4.12. In the afternoon it hovered around 4.25 and closed 4.27. There have been fairly substantial offerings of dollars from New York due I believe at least in part to reports which the Bank of Manhattan's Berlin agent has been sending to both New York and London. He is a former German army officer who is a naturalized American citizen and is supposed to have good Gestapo and other connections in Berlin. The purport of his plea is that a political compromise is possible and that at 4.12 sterling was probably at its low. Be that as it may or may not it has had the effect of giving some support today.

On the other hand I had lunch with Clay at the Bank of England. He doubts whether the rise in the bank rate in prevailing circumstances can dynamically affect the exchange position and he thinks that sterling will go lower if the crisis is prolonged.

Incidentally
Incidentally Clay confirmed (see section 3 my 645, May 9, 6 p.m.) that in the event of war Great Britain would become economically and financially a totalitarian state as rapidly as possible and problems would be regarded in the light of manpower, tons and tonnage rather than pounds shillings and pence. Clay felt that their plans were sufficiently developed so they would start off at well into the 1917 stage.

Preparations for a war are far advanced in the city. The clearing banks have already transferred their head offices to the country where the section of the Bank of England with which they deal is also now located. All financial institutions have during the past year duplicated their records and have made arrangements to continue as much of their operations as possible in places of comparative safety. The hard nucleus of the Bank of England and the Treasury are remaining in London. Even now the city is half deserted, a considerable portion of the staffs of the various institutions having either moved to the country or been called up to their territorial or reserve units. In fact London itself presents a half deserted aspect. A general exodus by train and car especially of people with children was evident over the weekend while Germans leaving the country crowded the railway stations concerned.
Military preparations adorn the countryside especially the placing and camouflaging of air defence apparatus. Considerable retail food purchases are being made and some stores are restricting saleable amounts of certain foodstuffs. In fact the hectic improvisations of last September are notably absent—at least for the moment.

There has been a forward market in dollars today, though business was very difficult to transact. The 3 months premium was around 4 to 3 points. Business in spot was heavy though not as heavy as Friday. A feature the latter part of the day was the fact that deals were for larger amounts than on previous days. Paris was a buyer of dollars, with the France rate 175. After 5.30 P.M. the Bank of France again bought sterling when the rate went to 175½.

The gold fixing took half an hour today, the price finally fixed being 161½ which represented a discount on the dollar shipping parity of about 4S 6D, the dollar being about 4.20 at the time. 230 bars were sold, most of the selling by dishoarders, and buying by speculators. The British fund gave or took a small amount to balance the deals. After-fixing deals were done at 160S.

The first deals with Stockholm today were at 17.75 (as compared with the pre-crisis rate of 19.40) no quotations were forthcoming from Copenhagen or Helsingfors. The fin mark was dealt in in Stockholm however on the pre-crisis basis but no business in this currency was being done in London.

CSB

KENNEDY
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Legation, Stockholm, Sweden
DATE: August 28, 5 p.m.
NO.: 62
RUSH.

The peg on sterling was dropped by the Swedish Riksbank today. The Legation has been informed by the Governor of the Swedish Riksbank that this was done in order that too sharp a rise in prices would be prevented. The same action has been taken by Finland. However, no decision has yet been made by Norway and Denmark. The selling rate today was 4.20 crowns to the dollar, which is five ore lower than when the crown was pegged to the pound. The restrictions on the sale of foreign exchange, reported last week in our telegram no. 59, dated August 26, 1939, 4 p.m., have been withdrawn.
August 28, 1939

MEMORANDUM FOR THE PRESIDENT:

The attached letter has been addressed to the Acting Secretary of Commerce instead of the Acting Secretary of the Treasury, since Collectors of Customs are exclusively under the jurisdiction of Commerce with respect to clearance of vessels.

Acting Secretary

MAILED 8-28-39
BY SPEC. MESSENGER 1:07 P.M.
FILE TO
COPY TO
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 for offensive purposes, thus converting them into armed vessels of war. 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 such armaments until a complete search has been made and you are satisfied that no such armaments are on board.

Very sincerely yours,

The Honorable
The Acting Secretary of Commerce
Washington, D. C.

EC/30
President: Hello, Johnnie.

H.: Hello, Mr. President.

President: How about our German ships?

H.: Well, Mr. President, we just had notice that the Bremen has passed Sandy Hook and is on her way up to the pier.

President: Yes, I just got that.

H.: And she wants to go out again as soon as she can get her papers cleared.

President: Yes.

H.: Now, we have given the instructions in accordance with your message to us to take all the time they possibly could take in the examination of all ships, but particularly this one. We have just finished talking with Harry Durning a few moments ago and cautioned him to take adequate time because it would require a lot of exploration to find whether or not this ship was equipped with offensive armaments.

President: Yes, I don't want it to go out - what's today - Monday?

H.: Yes, sir - today is Monday.

President: I think if we hold her until Wednesday - until all day tomorrow and all day the next day - she won't dock now until late tonight.

H.: I haven't heard the exact time of her docking.

President: Well it will be a few hours from now - seven or eight.

H.: Yes, sir.

President: And I think we ought to hold her forty-eight hours minimum.

H.: Well, we will certainly try, Mr. President.

President: How about the other two fellows - the New York and the other one?

H.: Well, the New York and the other one - we made a most thorough examination that we could.
H. and Durning said he did not have another excuse to hold her so he had to let her go.

President: Uhuh - Uhuh - well, it took us nearly 48 hours.

H. That's right - we were busy with her Saturday and Sunday - she did not get out until Monday.

President: Yes, I think that's all right.

H. Yes, sir.

President: Well, I think you had better hold the Bremen 48 hours - this is just the psychological moment -

H. Yes, sir.

President: (laughs)

H. We will do everything in our power to hold her as long as possible - and make the most minute examination, because I do think that being a new (?) ship we ought to take all the trouble we can -

President: Yes, absolutely, because she is a dangerous ship to have loose -

H. Yea, indeed.

President: She is very fast.

H. Yes, sir.

President: All right.

H. Thank you, Mr. President, we will take care of it.

President: Fine.

H. Goodbye, sir.

President: All right.
DEPARTMENT OF STATE

Assistant Secretary

August 28, 1939

MEMORANDUM TO ACTING SECRETARY OF THE TREASURY

I acknowledge, with thanks, receipt of your letter and one copy of the memorandum to the President relating to foreign exchange; likewise, two files covering respectively "Control of Vessels in Territorial Waters of the United States and of Shipment of Arms" and "Foreign Exchange." The original has been transmitted to the White House. The copy has been kept with the complete file of these documents here in the Department of State.

For the Inter-Departmental Committee on Neutrality:

/s/ A. A. Berle Jr.
Memorandum For The President:

I. Foreign Exchange

The Interdepartmental Committee agreed to recommend the following action in regard to foreign exchange, in the absence of emergency of such extreme character as to require otherwise:

(1) On outbreak of hostilities, take no immediate action.

(2) If conditions require action, revoke the Regulations of the Secretary of the Treasury of November 12, 1934. The effect of such action would be to reinstate the restrictions on transactions in foreign exchange, transfers of credit and the export of coin and currency contained in Executive Order No. 6560 of January 15, 1934, which restrictions had in effect been suspended by such Regulations. Such Executive Order exempts from the licensing requirements foreign exchange transactions and transfers of credit for normal commercial or business requirements, and reasonable traveling and personal requirements. Transmitted herewith is such an Order of Revocation, marked "Document A".

(3) If conditions require further action, take action to require licenses for all transactions in foreign exchange, transfers of credit between banking institutions in the United States and those outside of the United States and for the export of any currency or silver coin or bullion, except for reasonable traveling and other personal requirements. Transmitted herewith is an Executive order, marked "Document B" which amends the Executive Order of January 15, 1934 so as to effectuate such purpose. This document has not been cleared with the Attorney General, but on the basis of the Attorney General's Letter to you in April, 1939, with respect to the order referred to in (4) below, there is felt to be no legal objection thereto.

(4) If conditions further require, issue the Executive order which the Secretary of the Treasury cleared with the Attorney General in April, 1939, and which was returned by you to the Secretary "ready to be signed at any time", or some modification thereof. Transmitted herewith is such an Executive order, marked "Document C", the affect 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 those outside of the United States;

2 sets to Berle –
(received from Cairns – we have no attachments – only this transmittal memo)
(c) the export of any currency or silver 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 transfers or payments any foreign country or a national thereof has any interest whatsoever.

Such Executive order contains an exception covering reasonable traveling and other personal requirements. Such order would also require detailed ports of foreign property interests in the United States.

II. Control of Vessels in Territorial Waters of the United States and of Shipments of Arms.

There are transmitted herewith alternative proclamations by the President and anchorage regulations, for the signature of the Acting Secretary of the Treasury and the President, relating to this subject. Both are designed to operate under the so-called Neutrality Act of June 15, 1917, but the papers numbered Plan I - 1 are based on the assumption that a proclamation under the Neutrality Act has not been issued, whereas the papers numbered Plan I - 2 are on the assumption that a proclamation under the Neutrality Act has been issued. Accompanying each set of papers are appropriate telegrams to enforcement officers directing the action contemplated by the proclamation and anchorage regulations.

There are also transmitted herewith appropriate telegrams relating to enforcement of the customs regulations which deal with the matter of shipments of arms and the regulations governing international traffic in arms issued by the State Department. These papers are designated as Plan II.

Another paper, designated as Plan III, consists of general instructions to the Coast Guard, in connection with the above and related matters.

(signed) John W. Hanes

2 sets to Berle - State Dept.
(1 orig. and 1 carbon - with attachments) - no attachments for this office - copy in General Counsel's office
How are you?

Can you talk to me a minute?

Yes, sir.

We seem to have bought four million nine hundred and seven of which about three million are notes. The market appears to be down average of about a half a point from the close Saturday. The offering at the moment appears to be somewhat from a speculative group with some question as to whether they've got them or just trying to sell something that they might get. We seem to have pretty well taken the smaller bona fide offers, perhaps some of the others but we are unable to determine at the moment just how much of the offering such as it is is from bona fide sellers or as I see it people who may be selling to replace later on.

Yes.

Now there's this question for decision, it's one of policy as to whether our efforts should be to go ahead and take what is offered from now on without regard to the nature of the seller with a view if possible of getting the market closed today as good or a shade better than it closed on Saturday. Now there can be two opinions about that, one that you would simply be taking not a very large amount but a certain amount of speculative bonds, the other would be that the general effect doing that might offset some of the disadvantage inherent in buying that type of offering.

What does George Harrison think about it?

I haven't talked to George in the last hour or so. John McKee, a member of the Board, has been up on the Jersey coast, he went over to New York today, yet hasn't - he's off on his vacation as a matter of fact, he was in the New York Bank talking to us and he and George Harrison are going to lunch together now and he said he'd call be back about one-thirty, our time.

Yes.

And at that time he and George would canvas the situation. I just wanted to see if you people over
there had any definite thought of that problem.

H: I'm away from my desk right now Ronald, and what I will do is to get Danny Bell and Herbert and myself will sit down together and I'll run it over with them and then I'll call you back.

R: Will you do that?

H: I'll do that. How long are you going - are you going to be in your office during lunch hour?

R: Yes, I'll be right at a telephone while I'm having lunch so you can call me at any time and I'll tell the operator that when you are calling me to get me on the phone.

H: We're having lunch inside so we'll call you during the lunch hour.

R: At your convenience. Righto, fine.

H: Thank you very much.
Ronald Ransom:  
Yes Johnny.

John Hanes:  
Ronald, with Danny and I sitting here together - we've been discussing this matter of the market.

R:  
Yes.

H:  
We haven't got any concrete suggestions to make, but we both sort of feel like we'd like to go along just about as outlined but we're just offering that as a suggestion that the way we feel not at all as being in a - any different than you fellows feel over there.

R:  
You mean as we have been going.

H:  
That's right. Yes, in other words, I understood what you were interested in was whether or not you thought it would be good policy to straighten the thing up just before the close.

R:  
That's right.

H:  
Just mainly for appearance sake.

R:  
Largely.

H:  
Yes. Well, so far as we're concerned we don't care, we just offer this as a suggestion of our own feeling that we're just - we'd like to go along just like you are, but if you and George Harrison, we recognize that he's got a much closer feel on that situation than we have and if he thinks it's advisable why we certainly shan't make any objection.

R:  
Well, I think that George would prefer to go just as we have been going which is to be very selective in what we take, that is who we take it from, so that we wouldn't be just taking everything that's offered for the purpose of getting a price up at the close.

H:  
Yes. Well, you understand our position now, so far as we're concerned, whatever you and George decide -

R:  
You're satisfied to go on through the day as we have been going.

H:  
That's right.

R:  
Which is not in any sense trying to achieve any particular closing price but let it close at the level which it would find for itself with us following the
policy of being highly selective in what we pick so that we won't just take the speculator's position away from it.

H: That's exactly our position.

R: Well that's satisfactory to you.

H: Yes. Wait a minute, wait a minute now, see if Dan wants to add - oh, Danny was just saying that in his opinion, we were trying to find out what the market is actually and we didn't want any - to feel that it was an artificial market. In other words we'd be better able to guide ourselves if we know exactly what the market consists of.

R: That's all right. I'll report that to the other members of the Committee. We're to meet now in just a few minutes.

H: You understand we're not trying to dictate -

R: Oh no, not at all, we're asking your views of it because we want to work in the closest cooperation with you.

H: Righto...

R: All right.

H: Fine. Thank you Ronald.
John
Hanes: Hello.
George
Harrison: Hello.

Hanes: Hello George.
H: Hello John.
Hanes: How are you?
H: Well, I'm all right. How are you?
Hanes: Wait just a minute.
H: What'd you say?
Hanes: How are you.
H: I'm fine. Thank you.
Hanes: I was just talking to Ronald Ransom.
H: Yes.

Hanes: And he was asking how we felt about giving this market a little bit of a jiggle at the end of the day.

H: A whirl. Better close up a little bit stronger.

Hanes: Danny and I both feel that we'd like to go along just about like we have been going but we told Ronald that if you and they decide differently that we would go along with you that - you're on the buying line and you know a good deal more about it than we do, closer in contact with it and so we'd go along with you if that was what you decided you wanted to do.

H: Well, I personally think it's a great mistake. I mean I'm in favor of going along as we've been going as you are.

Hanes: Well, we - that was frankly our opinion George.

H: I think to artificially bid up the prices at the end of the day will cause a great deal of criticism, we've heard some of it already.

Hanes: Yes.
Hanes: And it would be wholly artificial.

Hanes: Yes.

H: And all you do then, these fellows could get out, and all you do is to have a flood of offerings to put in the Federal's basket.

Hanes: Yes. That was our opinion but we wanted you to have the greatest freedom of action, do you see? Just as we agreed this morning that we weren't going to try to interfere with you in the operation of the thing there.

H: Well it isn't a question of that, it's just a question of being consistent and doing the best job that can be done. Now it's a question of judgment which is the best job.

Hanes: Yes.

H: I think when you consider that here you're on the threshold of a war and your bond market has gone off even at the worst only three quarters of a point now, that you can say it's been a very good - account of itself.

Hanes: I should say so.

H: And I think to artificially step in in the last fifteen or twenty minutes and bid up prices won't be understood, it'll be known who's doing it.

Hanes: It'll be understood in the street all right, don't worry about that, and the worst interpretation will be put on it.

H: Yes, and the only criticism we've had yet by anybody in the way we've handled the account up here, is one of these who come in and they want to know what we're trying to do, wreck this market for the financing.

Hanes: Yes.

H: In other words it got out that we were pretty generous with some of the bids and that as a result, the dealers instead of trying to find the market, he'd come straight to us.

Hanes: Yes.

H: I think it's better to put some pressure on it.
To give
still in the market. There's never been a time when

Hanes: Yes.

H: And I don't want to compete with those healthy buyers
with - where their bids are anything in line at all. But if there is no bid then, or if there is some need
to bail somebody out or try to unload something why
then I think we ought to step in.

Hanes: Yes.

H: But I think, artificially, at the end of the day, to
push it up would be a great mistake.

Hanes: Did any criticism come from any responsible dealers
George?

H: No, Rouse told me, I must say, that comment that I just
mentioned to you was one of the least responsible ones.

Hanes: Yes.

H: So I don't worry about them.

Hanes: No, no. I see. Well, you know how we feel about it.
I guess Ronald will be calling you in a few minutes
because I just got through talking with him when you
rang.

H: Yes, well I understood we're to have a hook up with
him at two-thirty and I didn't know he was going to
talk, so I wanted to find out what you were thinking
first.

Hanes: Yes.

H: You would just prefer to go on rather than jiggle this
thing up at the end.

Hanes: That's the way we feel. Yes.

H: All right.

Hanes: Thank you George.

H: I agree with you.

Hanes: Thank you sir.

H: First rate. Goodbye.

Hanes: Goodbye.
Walton Butterworth: They opened up at four thirty-six to a low of four-twelve.

Lochhead: Four thirty-six to a low of four-twelve. Yes.

B: business of four-twelve, and it's now hovering around four twenty-five.

L: Around four twenty-five. Yes.

B: Now there's been some selling of dollars from New York.

L: Selling of dollars from New York.

B: Yes.

L: Yes.

B: And as far as I can straighten it out I think this is the reason, I'm not quite sure.

L: You think this is the what?

B: The reason.

L: Yes.

B: The Bank of Manhattan Berlin agent -

L: Yes.

B: Is a naturalized American and is supposed to have a lot of good connections in Berlin.

L: Yes.

B: He has telephoned London about three times today and I presume has telephoned New York the same way, more or less implying that a compromise was possible and telling of the sterling figure.

L: I see.

B: And as soon as that word got around why we began to have some dollar selling on this in New York.

L: I see.
B: I mean that's about the way the thing is. Now as far as the stock exchange is concerned here, there's no dealing in America at all.

L: Yes. No dealings at all, that's right.

B: The only terms that they can deal if they can match a buying and selling order from a non-resident.

L: They can only deal a dispatching of buying and selling order for a non-resident.

B: Yes.

L: Yes.

B: That's practically impossible.

L: Right.

B: And these forms that you have to fill out if you want permission to dispose of your securities - I've checked up with five English brokers that I know. They've each one of them got their share of these bonds. None of them have had a client who's applied for them.

L: Right.

B: So that you can see it's more or less inactivity. As far as the British market is concerned the only thing that's proving a gold chest they're going up.

L: They're going up. Yes, the terms of sterling.

B: Yes.

L: Right.

B: Well that's about the condition as it is I don't think things are any better or any worse.

L: I see.

B: Henderson is leaving this afternoon, just about now to fly to Berlin, he is supposed to see Hitler tonight with the British answer.

L: I see.
And I think it will be denied in the hope that there will be an answer back from Hitler.

Yes.

And Parliament has been called to meet tomorrow.

Parliament has been called to meet tomorrow. Right.

Yes.

Well now, there's nothing very much, speaking of our market, at the beginning it went off on a market volume, it went off about two and a quarter points, our stock market.

Yes.

It's turned around now and it's up about one point from the low. Our Government bond market is quiet, it's off about a half to three quarters of a point.

But there's no particular activity in the markets here at all.

Right.

Exchange of course, we're just simply following the London quotes. There's no transactions that we can find.

No.

And of course the other angle will be these various other currencies. I notice Finland has meant to cut away from sterling.

Yes.

And Sweden is meant to be creating a new rate but we haven't got the terms yet, I can't understand, the flashes that are coming look as if they were deprecating more than sterling which I don't think is right. I think it's a mistaken report we have, but those are the ones we are watching of course, are the outside currency ones. But there's no dealings at all here in the currency, the exchange, it is more or less a nominal market and everybody talking.
B: Yes, that's right.

L: Now just one second. (aside) I don't think there's really very much to cover as I say things are very quiet here, and it's more or less sitting down waiting for the turn of events.

B: You got my telegram of last night.

L: The telegram of last night containing the orders.

B: The orders.

L: That's right. Yes, we have those they're all in.

B: Because I thought I'd better give you the full text, even though it was a long telegram because it's so important to us.

L: Yes, we wanted it because of course we also wanted the SEC to be fully aware of the different forms.

B: Now, as I told you in my other telegram I read to them exactly what I had said in those two paragraphs, and they con -

L: I see.

B: So that I think that makes it clear beyond a doubt.

L: Right. Well all right, thank you very much Walton.

B: Right, Archie.

L: And you'll keep us posted on anything that comes along.

B: I will.

L: Fine, thank you. Goodbye.
Department of State
Washington
August 28, 1939

Re: Inter-Departmental Committee on Neutrality.

My dear Mr. Hanes:

In accordance with our understanding, I am sending herewith a complete set of documents relating to neutrality as approved by the Inter-Departmental Committee. This set of documents is being held in the Department of State for use in case of necessity.

Very truly yours,

For the Inter-Departmental Committee:

/s/ A. A. Berle, Jr.
A. A. Berle, Jr.
Assistant Secretary of State

Enclosures - 13

The Honorable John W. Hanes - Acting Secretary

CE gave to Mrs. Poole for Cairns - FLG stated that Mr. Hanes had told Cairns over the telephone 8-30-39 that he might keep these in his safe.
At 12:24 p.m., 28 August, 1939, a message was transmitted from the German Norddeich station to an unlisted station HPTA. All call signals between HO— and HP— are in the call range assigned to Panamanian stations. The message was signed DEHE, which is the registered cable address of a commercial wireless company in Berlin. The message instructs the station HPTA to remove from on board telegraph equipment and service appliances when this vessel is changed into a man-of-war, and states that traffic will no longer be transmitted by the commercial wireless company.

In this connection, you are referred to the report from this office to Mr. Lochhead under date of 12 May, 1939, in which it was reported from a most reliable source that approximately thirty-five German vessels are under Panamanian registry and are commanded by German officers and manned by German crews. Through the intervening months it has been observed that these vessels constantly received orders from the German Norddeich station in the German language and in German government code.

Other transmissions of peculiar significance which have been noted have been to a series of unlisted calls in the range assigned to Iranian stations and another series to unlisted calls in the range assigned to Luxembourg stations. In the list of stations issued by the Berna Bureau there are no Luxembourg stations whatever and only about twenty-five Iranian stations. The messages transmitted, although as yet unread, bear every indication of being identical in meaning. They are believed to be enciphered code, the basic code being the same, but each station being enciphered in a different manner. Each message begins with a series of numerals in plain language German followed by the enciphered code text, and in every case, is followed by the signature "TRANSLAT BAL" which, it will be recalled was mentioned in an earlier report today as the signature attached to several dozen messages to German ships directing them to act according to their special instructions. All evidence points to the conclusion that the foregoing call signals are spurious and the stations intended are really German stations.

Messages identical in nature to the foregoing have also been transmitted to the CHARLOTTE SCHLIEBANN, EMIL FRIEDRICH, and two other unlisted German stations.

Oreg to the President.
Latest information on ship movements received by this office reports that the German SS CONSUL HORN arrived Port-au-Prince, Haiti, on August 28th and will remain there for orders. The German SS ST. LOUIS cancelled her voyage to Bermuda and headed back to Hamburg, Germany on August 27th. The German SS HENRY HORN, which was due at San Juan, Puerto Rico, on August 26th has not arrived. The German SS WINGARD, which cleared Philadelphia, Pa. for Norfolk, Va. on August 26th, has not arrived. The German SS H纯电动, off Sandy Hook, will dock at 6:00 p.m. to unload passengers and will sail tomorrow morning for Germany with no passengers.

F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.

Original and 2 copies made
Incoming original to White House 8/28/39

FLG - 3 -
The foregoing message in every case ended with the following: "TRANSLIT H.M. It is believed that this is the signature for a Berlin government maritime bureau and that possibly the complete signature is TRANSPORTLEITUNG, BERLIN.

Italian vessels receiving orders from the Italian radio station at Coltano during the last forty-eight hours are as follows:

**NITA** - Proceed to Bremen instead of Stettin; acknowledge.

**NITA** - (Change in orders two hours later) Go to Cuxhaven instead of Bremen

**POMONDA** - Get into communication when you arrive Venice

**ALABAMA** - Re-enter port; await orders; acknowledge

**SHELL ITALIA** - Proceed Bari; await orders; acknowledge

**MARIA ROSA** - Await instructions from Rome; acknowledge

**MONDALDO** - If impossible to arrive in time at Fermo, proceed as soon as possible to port indicated on August 30th; acknowledge

**CAPONALI** - In consideration of the affair that is being transacted, go immediately to Las Palmas. Wait there for instructions

**FELCE** - Depart from port; await our instructions; acknowledge; confirm

**VILDA** - Proceed Genoa; avoid other landing places; acknowledge

**ORESTE** - Proceed at top speed

**MAGNO** - Proceed to Assab or Massana; await our orders; confirm

**SAN MARCO** - Go to Vigo; await orders

**CASTEL VERDE** If you have passed Gibraltar, proceed to Cadiz; otherwise proceed to Palermo

**ETTORE** - Proceed to Rotterdam or Bremen; await orders; acknowledge

**TUSCANY** - Proceed to Teneriffe; await orders; acknowledge

**DELIA** - Stop first at Teneriffe; await orders; confirm

**RAPALLO** - Call in at Teneriffe; await instructions; acknowledge

**VIGOR** - In eventuality, take refuge in a friendly or neutral port in Colombia. (VIGOR acknowledged message)
CONFIDENTIAL

IOF 001
29 August, 1939.

PIAIA - Cancel our telegram of August 24th about trans-
shipment to CONTE VERDE

ANTIO - Go to Aruba; remain there for orders; acknow-
edge

The following vessels cleared from United States ports over the
week-end:

<table>
<thead>
<tr>
<th>German</th>
<th>PORTLAND</th>
<th>from</th>
<th>Everett</th>
<th>for</th>
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<tbody>
<tr>
<td>German</td>
<td>HILGOLAND</td>
<td></td>
<td>Mobile</td>
<td>Portland</td>
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<tr>
<td>German</td>
<td>MEXIX</td>
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<td>Galveston</td>
<td>Buenos Aires</td>
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<td>German</td>
<td>ANTILLA</td>
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<td>Galveston</td>
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<tr>
<td>German</td>
<td>ST. LOUIS</td>
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<td>New York</td>
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<td>German</td>
<td>WINNISIAND</td>
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<td>Philadephia</td>
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<td>Italian</td>
<td>MARINA Q</td>
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<td>Norfolk</td>
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<td>Japanese</td>
<td>HIU MARU</td>
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<td>Seattle</td>
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<td>Japanese</td>
<td>TOSEI MARU</td>
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<td>Aberdeen</td>
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<td>Japanese</td>
<td>KANO MARU</td>
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<td>Los Angeles</td>
<td>New York</td>
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<td>Japanese</td>
<td>KAGU MARU</td>
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<td>Los Angeles</td>
<td>Kobe</td>
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<td>Japanese</td>
<td>ASAMA MARU</td>
<td></td>
<td>Honolulu</td>
<td>San Francisco</td>
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<tr>
<td>Japanese</td>
<td>YAMAGAI MARU</td>
<td></td>
<td>New York</td>
<td>?</td>
</tr>
</tbody>
</table>

The following vessels were listed as being in United States ports
on August 27th:

In Boston:

* Japanese | AKAGI MARU | Aug. 27
* Italian  | MONDIOZA  | Aug. 27

In New York:

* German   | NEW YORK  | Aug. 26
* Italian  | ROMA      | Aug. 26
* Italian  | LINENZA   | Aug. 26
* Italian  | RIBANZA   | Aug. 26
* Japanese | KUTAMA MARU| Aug. 26

In Philadelphia:

* Japanese | KINKA MARU | Aug. 26
* Japanese | KORAMA MARU| Aug. 26
* Japanese | KYUSU MARU | Aug. 26

In Mesa Grande:

* German   | Isdalveld | Aug. 26

See page one

Reggraded Unclassified
CONFIDENTIAL

[...] 28 August, 1939.

In California:

Italian TESSO Aug. 27
Italian LAURA C Aug. 27

In Los Angeles:

Japanese KITOKARA MARU Aug. 24

In San Francisco:

Japanese MORIYAMA MARU Aug. 21
Japanese KURIKOSO MARU Aug. 24
Japanese YAMAZATO MARU Aug. 26

In Baltimore:

Italian AMSTERDAM Aug. 22

In New Orleans:

Italian IDA Aug. 22
Italian MONFORT Aug. 25

The following vessels are due to arrive in United States ports in the near future from foreign ports:

German HAVELLAND Los Angeles
German PFEISSLAND New York
German YOGOYA Houston
German OBERHOLD Baltimore
German ERZERIEN New York

Japanese HOLLAND MARU Seattle
Japanese TAIYO MARU San Francisco
Japanese DAHIK OURA MARU San Francisco
Japanese KURO MARU Los Angeles
Japanese AKATSUKI MARU Los Angeles

In addition to the foregoing, there are approximately ten Japanese vessels on which we have current positions.

F. L. POLLED,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.
CONFIDENTIAL

20 August, 1939.

MEMORANDUM FOR ASSISTANT SECRETARY GASTON

According to reliable information received by this office, the German SS COLUMBUS put in at Curacao, Dutch West Indies, to discharge eight hundred American passengers after being ordered back to Germany, but was refused permission to enter. The COLUMBUS headed for New York but if she is unable to reach that port, will attempt to land passengers at San Juan, Puerto Rico.

From information received this morning, the German SS HEBREW is due to arrive in New York tomorrow, August 29th. The German SS NEW YORK departed New York for Hamburg, Germany, on August 28th before schedule. The German SS EUROPA, which is on route from New York to Germany did not stop at Cowes, England, to discharge passengers, but continued on to Germany. Forty German passengers were awaiting the EUROPA at Cowes.

All British shipping has been ordered out of the Baltic Sea, and no British shipping may leave British ports without the authority of the Admiralty, which is now in charge of all British shipping.

An identical message reading, "ACT ACCORDING TO YOUR SPECIAL INSTRUCTIONS" was sent to numerous German vessels, transmission beginning at approximately midnight, August 27th and still continuing. Vessels called up to 3:00 a.m. were as follows:

ADOLF LEONHARDT  
HAVELLAND  
SPREEWALD  
SHEIN  
KIELLAND  
NORDEN  
ASKARI  
HAMB  
ROSTOCK  
MARIE FERDINAND  
HAMBURG  
CARL VONHORN  
FLORENA  
HANS ARP  
LEISER  
STETTLINER GESIF

RE: DUBROF  
GOSLAR  
BOBEM  
ANATOLIA  
WOLLBERG  
LEIPZIG  
WINNETOU  
MAX ALBERG  
CHRISTOPH V DOERNER  
GILHAUSEN  
ABDINA  
OPTIMA  
LENA FRISSTER  
LUCY BESSENGER  
RUDOLF ALBERG
CONVORANDON TO THE FILES:

Conversation between Mr. Rouse of the Federal Reserve Bank of New York and Mr. Bell. Time 12:09 to 12:15.

7. Rouse: This thing's quite quiet. There are a few offerings, come in in the last ten minutes, but the market's pretty steady. I think the buyers aren't looking quite as hard to place stocks.

7. Bell: Have the offerings been taken?

7. Rouse: Yes, they are being taken. A boy asked for bid on some 69 to 73 s. He had a higher bid from a dealer. I just bought a few of the last -- quarter of a million. But since we have shown our face in this thing I don't think the boys are working quite as hard.

7. Bell: How many bonds and notes have you bought?

7. Rouse: Four million nine hundred.

7. Bell: Four million nine hundred, of which (?) 3 million notes? Ronald Ranson asked if we wanted to go fifty-fifty. I told him that was our arrangement the other day, but I knew you had bought notes and I did not think we should buy trust accounts. We had to look after the trust interests. I said we would go fifty-fifty on the bonds. We might take hold of the bonds and might take hold of the notes.

7. Rouse: You haven't any ideas about putting it up or putting it down?

7. Bell: No. I would rather go up if it is in motion. Make is satisfied?

7. Rouse: I judge so, but he will be reporting in to the Board directly. He missed around on the 65 60 s. We bought half a million from one fellow and he promptly put his market down from 6 10 to 6 10 to 4 1/2, hoping to buy the bonds, of course. Everybody knew we were interested and I (he) was forced to put it right back again, but that is just a trade trick.

7. Bell: I don't think you ought to try to put it up. There might be a little question here as to whether it's gone down far enough.

7. Rouse: My only concern is the boys don't go trying to look -- There are some bargain hunters.
Mr. Buell: Well, I think we ought to let these people buy. I think that a million dollars bought by the average William Barlow doesn't have the same effect, if we buy, and if we buy in such a way, that it go the other way. I think the mistake is about the same as it was.

We were there before. I don't know. We try to do as intelligently. We have these offers. I don't know. We try to do as intelligently.

Mr. Buell: So they are down to 10 now.

Mr. Buell: I think that the people are about 3 and 3 bid on Friday. It is a western bank and they have got a good deal of money.

I think that the people are about 3 and 3 bid on Friday. It is a western bank and they have got a good deal of money.

Mr. Buell: We think there is a bargain there.

The people sent us a note asking for more money. You have got better rates. We think that the people are about 3 and 3 bid on Friday. It is a western bank and they have got a good deal of money.

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MEMORANDUM TO THE FILES:

Conversation between Mr. Gordon Rentschler of the National City Bank of New York and Mr. Hanse. Time 11:27 to 11:35.

Mr. Hanse: Hello, Gordon.

Mr. Rentschler: John, this thing is going along very comfortably this morning so far. There is a certain amount of nervousness that I suppose you know more about than we do.

Mr. Hanse: It is subsiding.

Mr. Rentschler: I talked to a good many fellows. Why, I think they have got it in pretty good shape --. Market seems to have picked up a little since it opened. There is nothing that we have got here. We have not been able to get in to France, on account of their being cut off between France and the United States in the telephone service.

Mr. Hanse: I heard that early this morning.

Mr. Rentschler: We can't talk to our fellows there, but we got nothing further out of London today than you got in the newspapers. Have you had anything?

Mr. Hanse: Only what we have heard on the radio.

Mr. Rentschler: The foreign exchange market -- the fellows on the other side, -- Stockholm. They were buying sterling, but in Copenhagen they exchange it. (expect it?) His hunch was that Copenhagen would be off, so that is the only thing we have been able to get, and that is this one man's hunch from Stockholm.

Mr. Hanse: Funds still flowing?

Mr. Rentschler: Yes. Our net -- is 2,103,000,000. That is 135,000,000 up on the year.

Mr. Hanse: Your excess reserves must be well up, too.

Mr. Rentschler: Three hundred forty-two million.

Mr. Hanse: Well, that is worse than the other day.
Mr. Rentschler: We are in a position to do a lot of business if anybody wants it, unless there is some untoward thing.

Mr. Hanes: We had a report here from the outside from the dealers that some of the banks were in the market this morning.

Mr. Rentschler: We picked up a couple of million over at the -- Company besides what we picked up here at the bank.

Mr. Hanes: Well, I think that's been extremely helpful to have the banks take a constructive attitude.

Mr. Rentschler: You will hear all about this afternoon from George (Harrison). If they can just let us keep on buying, because none of us are fool enough to think we can make money.

Mr. Hanes: If anything happens here, I will call you and tell you. Henry, just confidentially, is sailing today.

Mr. Rentschler: Not coming by airplane? I was concerned because it isn't necessary.

Mr. Hanes: No, he is coming by boat.
August 26, 1939.

MEMORANDUM TO THE FILES:

Conversation between Mr. Ronald Ransom of the Federal Reserve Board and Mr. Hanes.
Time 11:13 to 11:16.

Hello. I suppose you have got the same. They tell me we bought 3,657,000. That is notes and bonds both, isn’t it?

Yes.

I got 3,000,000 notes.

Three million six hundred fifty-seven thousand, of which 2,000,000 are notes.

Oh, I got it wrong, then.

Doesn’t really make much difference.

Mr. Hanes: They seem to have steadied down. More bids probably than offers coming in at the present time.

Mr. Ransom: Stock market has picked up. Seems to be some report from Berlin that the situation looks more hopeful; looks like the Germans are going to negotiate.

Mr. Hanes: That is all right. They have my permission.

Mr. Ransom: Well, it is giving a good account of itself. -- We are operating on a fifty-fifty basis if you people want to do that.

Mr. Hanes: Better confine it to the bonds, though Ronald. We are operating on trust funds.

Mr. Roush: If you want to do it, we might take all the bonds and you can hold the notes.

Mr. Hanes: I think it is entirely satisfactory to us to operate fifty-fifty on the bonds. We will take the notes.

Mr. Ransom: If there aren’t any more than this, it won’t make much difference.

Mr. Hanes: We will leave it as that if that is satisfactory. Thank you, Ronald.
MEMORANDUM TO THE FILES:

Conversation between Mr. House of the Federal Reserve Bank of New York and
Mr. D. V. Bell. Time 11:10 to 11:15.

Mr. House: Hello, Dan. We haven't had any offerings since I talked to you last.
Prices are higher. Thirteen is bid, I understand, on the last bond.

Mr. Bell: It was 5 a while ago.

Mr. House: That is right.

Mr. Bell: No, it was 12.

Mr. House: It was 5. 12, and now we have heard of some 13 bids. Twelve, I think,
is bid pretty generally.

Mr. Bell: Absolutely no offers.

Mr. House: We cleared up that note situation that I spoke to you of. It took
3,000,000. Fellow said he was short a quarter of a million and would
I let him off the hook. I didn't do it. I told him it was too late
to do anything.

Mr. Bell: Well, that is good. He may have to go out and buy them.

Mr. House: I don't know, but it seems to me healthier to do it that way. I did
another trade of 21,000,000神圣notes, and those two things are the
only things I did in the note market. There is not real strength,
but prices are a little better in the notes, too. Any suggestions?

Mr. Bell: Not a thing. Everything is quiet here. We are not hearing a thing.

Mr. House: Any news?

Mr. Bell: No news here at all.

1g
MEMORANDUM TO THE FILES:

Conversation between Mr. Sumner Welles and Mr. Hanes. Time 10:55 to 10:59.

Mr. Welles: Good morning, John. Johnny, with regard to that written instruction that the President sent to you on Friday, you remember the one I mean. On Saturday we had an urgent inquiry from the British Government that it was on the point of arming some of its merchant ships defensively, and it assumed that there would be no objection to — defensively on such ships. I took the matter up with the President and pointed out that he had complete discretion under the terms of the Neutrality Act. The only hitch might be the text of the instruction he gave you. He authorized me to tell the British Government that he had no objection, and asked me to speak to you about it. When he dictated that to you he thought that he remembered that he had only said "armament" and not "offensive armament." It is important. I think that the word "offensive" is not included. You ought to get him to rewrite the instructions as of the same date but including the word "offensive" before the word "armament."

Mr. Hanes: Here's what it says: (See letter of August 25 from the President.) That would seem to indicate "offensive."

Mr. Welles: Well, that sound (isn't?) suggestion — —

Mr. Hanes: You think it should be "carrying offensive armaments."

Mr. Welles: "Carrying armaments capable of being used for offensive purposes." The word "offensive" ought to be in that.

Mr. Hanes: I will read the rest of it and see if it covered anywhere. (See letter of August 25 from the President.)

Mr. Welles: Well, that makes it all the more clear that the word "offensive" ought to be in in every case where "armament" is used. Otherwise, you see, we go right against the principles of international law and right against what the President has in mind. I think it ought to be rewritten on White House stationery.

Mr. Hanes: In all three places.

Mr. Welles: Yes.

August 28, 1939.
HONORARIUM TO THE FILES:

Conversation between Mr. Rouse of the Federal Reserve Bank of New York and Mr. D. W. Bell. Time about 10:45.

Mr. Rouse: Practically unchanged except it is a shade better. Quite dull. We picked out an issue that is relatively quite cheap. the 4½ — and asked for an offering.

Mr. Bell: Did you give any price or just ask for it?

Mr. Rouse: We asked for offerings. We did not mention the price. Good number of the dealers had some, but they wanted to keep them.

Mr. Bell: Well, that is encouraging, isn’t it?

Mr. Rouse: Yes. Sixty 6½s are 5 in 72, and what we got from the dealers. Still, there is a little better buying than selling. — He didn’t tell us who it was for, but I would like to find out. It is the only plug of notes in the market that hasn’t found a home. Shorter, they are December 40 and March 41. Two million ov half, and at the prices that we have formerly bid, I think the yields are fairly attractive. This is all relative, of course, crazy as it is. I think they worked out 2½/100s of 1 percent and 3½/100s of 1 percent.

Mr. Bell: You are in. — I was going to ask you if you are interested in any of those.

Mr. Rouse: Not if I can help it. I haven’t been able to conclude the check, so I have no recommendation to make at the moment. Have you any good ideas for me?

Mr. Bell: No. I think things here are about the same. We haven’t any special news. I was going to ask you — this note thing might be same as some of that other stuff, holding the stocks abroad, mightn’t it?

Mr. Rouse: Well, it might be. I don’t know.

Mr. Bell: Well, what I was going to ask is about your bills today.

Mr. Rouse: Well, there is no question but you’ll have plenty of bids.

Mr. Bell: They are going to let some of — — run off.
Mr. Root: I don’t know what the Board has decided about that. But there is no question about there being plenty of bids on them. One called me and said he was going to be in. I don’t know where it will go, but I should think the FDIC rate would stop them out without any question.

Mr. Bell: The reason I ask about the bids, I thought if you are interested in substitutions, maybe those note things would be a good substitution. Of course, let me know. it looks pretty good.

Mr. Root: Thank you, Dan.
August 26, 1939.

MEMORANDUM TO THE FILES

Conversation between Mr. Rouse of the Federal Reserve Bank of New York and Mr. Bell. Time 10:09 to 10:12.

Rouse: There is no change in prices.
Bell: Really?
Rouse: Quotations, that is.
Bell: Down?
Rouse: Both the bankers and -- -- as dealers tell me now there is no offers to make, and they are getting some savings banks and some small people out of town nibbling. Nothing to offer to us. We have bought altogether less than one million and a quarter, and we are shopping around a little bit for 65 60s. - We are not getting anything. - Prices are about the same. -- and the bankers and the Guaranty are apparently willing to buy. Guaranty having difficulty buying stuff.
Bell: Well, that ought to sort of stabilize it.

Rouse: I think it will. We have shown an interest in the market and have invited offers. We had one funny case. Bank in North Carolina, they made an offering to us, and we bought 300,000 of the 48 issue. Then he offered some 2-7/6s and 31 4s. We made him a bid on the 2-7/6s and he turned it down. Then I said we are not interested under those circumstances. We know the name of the bank. We won't pay any attention to it. -- -- We bought some 60 65s, some 3s of 55, and some 3s of 48. It doesn't seem to have changed since I talked to you last. We found one dealer offering (?) to another. He offered them to us. We said we were not interested.

Mr. Bell: Why did he do that?

Rouse: Just curiosity, to see if we would take them. He sold half of them to a customer at a good profit to himself.

Bell: Well, that is pretty good.

Rouse: It is a small market, Dan.

Bell: OK.
MEMORANDUM TO THE FILES:

Conversation between Mr. Ransom of the Federal Reserve Board and Mr. Hanes.
Time 9:53 to 9:56

Mr. Ransom: They have bought 750,000.

Mr. Hanes: Danny Bell is on the other phone, Ronald. He has just been talking with Rouse in the New York office. I don't know if he's got anything you haven't got. One issue was offered on about 16/32, but in response to the general feeling of the other members of the Executive Committee he's bought some bonds, 750,000, but as of this time that seems to be all right to you.

Mr. Ransom: Well, I think it is all right. There is nothing in the market, I understand, in the way of offerings. When offerings do come in they are prepared to buy bonds. They have a feeling that some New York banks have bought bonds. -- Oh, that is the New York banks. They told us that both the banks and the dealers were probably buyers this morning. I don't want to keep as far away from that market that we buy nothing and the offering price starts sliding off. -- Well, I think you (they?) are on top of the situation.

Mr. Hanes: Thank you, Ronald, and if we hear anything we will call you back.
Memorandum to the Files:

Conversation between Mr. Hoover of the Federal Reserve Bank of New York and Mr. D. W. Bell. Time 9:15.

Hoover: Hello, Dan.
Bell: Hello, Bob.
Hoover: This thing is not very bad.
Bell: Really?
Hoover: So far it seems to be mostly very small stuff. -- There is nothing going on in the floor. There have been no transactions only. There seem to be no offers on the floor of the Exchange.

Mr. Bell: I see. You are talking now about the bonds.
Hoover: I am talking about the bonds. Biggest offering I have had has been a million of short notes, and I haven't done anything about that, naturally.
Bell: You haven't had any bids in?
Hoover: No. We have been waiting for offers. We had one misunderstanding and bought a few bonds, long bonds, about 700.
Bell: Had no effect?
Hoover: It was a position situation.
Bell: I see.
Hoover: And it left this fellow open so we could make --
Bell: It's gone down, I understand from Hadley.
Hoover: Well, it is a little more than that, but there is a real market on the long bonds one and three quarters down, and there is a real market there and pays our trade on them. -- -- Little below Friday night.
Bell: Well, your Saturday's was above Friday about half a point, so that you are down below Saturday and a little (lot?) below Friday's close.
Rouse: You still think that we should just still watch the situation?
Bell: Well, we are prepared —
Rouse: If it is offered.
Bell: I see.
Rouse: And we are showing interest to some of these fellows and we will probably be buying stuff if that is agreeable.
Bell: Well, that is agreeable.
Rouse: All right, sir, but you are not in there with any bids of any kind, and you will take offers when they come in. — That is right. We are in that position. It's been very small. I want to emphasize that. Some of the dealers are making real market.
Bell: They are?
Rouse: Yes, sir.
Bell: O. K. Any indication that some of the large banks might come in there?
Rouse: I understand there has been some buying by the banks in town. I think we might take a shot at this.
Bell: All right, Bob, keep me advised, will you? Thanks a lot.
August 29, 1939.
9:55 A. M.

John W. Hanes:
Yet there's a matter - of course the I'm not interested of course.

Ambrose O'Connell:
Yes.

H: Financially, in the company.

O: Well I think it ought to go on the Harding myself.

H: But I would think, just looking at it perfectly impartially, if I could be impartial, it's hard to be impartial sometimes when you're so close to people and so intimate.

O: Yes.

H: Such intimate friends with them.

O: Well now, Mr. Farley had planned to return on the Harding and he's coming back on the Manhattan.

H: Yes.

O: Well I think if the Postmaster General transfers we ought to transfer the mail too.

H: Well -

O: For the same reason.

H: It would certainly strike me that - in looking at it as an outsider, outsider of the Government circle, when the Government is trying to do everything they can to force the American shipping it would certainly seem to me to be fair for them to ask that if the Government.

O: Yes

H: There's not a great deal of difference in time and they're sailing the same day and also the fact that we might - there might be trouble before either boat gets there.

O: That's right.

H: The American mails I should think would be subject to a lot of criticism if the American mails got captured by Germany.

O: Yes. Well now, let me get into that right away, I
didn’t know that that situation developed. Suppose I get a hold of our people and see if I can’t work that out.

H: Well, it’s got to be done before one o’clock today I understand, or it will be too late.

O: Well, I’ll get on top of it right away.

H: Well you’re very kind and I don’t want you to mis-understand my position, but I tell you everything that I know, I’m being perfectly frank with you, and -

O: I think it’s perfectly fine you called, I’m glad you called.

H: I’m prejudiced naturally, I would be, as I was with that company for ten years.

O: Yes.

H: And I’ve been awfully interested in the development of the American Merchant Marine, especially through the United States Lines.

O: Yes, well I have been too -

H: But I’m not financially connected because the Secretary asked me to sell out when I came to the Treasury.

O: Yes.

H: So I’m not financially connected but I am terribly prejudiced and I’m terribly devoted to everybody in the company.

O: Yes, well I -

H: So I want to warn you of my interest. (laughs)

O: All right. I’ll try to get a hold of it right away.

H: You’re very kind and I appreciate it Mr. O’Connell very much.

O: All right, fine.

H: Goodbye.
På grunn av luftvernøvelsene i aften anmodes gjestene om å holde vinduer og dører lukket og trekke gardiner og portierer for - fra kl. 19 til kl. 5 om morgenen.

Hvis vinduer eller dører holdes åpne, må alt lys slukkes.

On account of the air raid precaution exercises which are to take place tonight the guests are requested to have the windows and doors closed and the curtains and portières shut from 7 o'clock P.M. until 5 o'clock in the morning.

If doors or windows are kept open no lights must be used.
Secretary of State
Washington,

1637, August 28, 7 p.m.

FOR THE TREASURY

The exchange market today was in a state of considerable bewilderment. Accustomed to standardized quotations which vary but a fraction per mill it was compelled to deal today with a spread of 1, 2, and even 3% between offers. The confusion was augmented of course when all telephone communication other than official between France and the outside world including London was stopped at noon. Also all cables must now be sent in clear and require approval by the authorities. Dollars were in heavy demand against the pound and the rate fluctuated from 4.40 to 4.12. It is now quoted at 4.23. The franc dollar rate ranged from 39.50 to 42.70 and is now around 41.50. The franc pound rate was held at 175.25 to 175.35 and the French fund lost some sterling. The Swiss franc, belga, and florin again followed the dollar. There were no forward quotations and no arbitrage business.

(END SECTION ONE).

BULLITT

NPL
There is still no indication that the French contemplate any such steps as those contained in yesterday's order of the British Treasury regarding dealings in and holding of foreign securities. That order does not appear greatly to have affected the Paris market though it served to encourage it. The securities market was well sustained considering the rapid and accumulative preparations for war in Europe. Rentes were not too weak some issues losing about a franc; the exchange guaranty issue (4½% of 1937) gained 2 francs.

The demand for both French and American banknotes continues but tapered off today as most preparations for the emergency were made last week. It is the general feeling of the financial community here that the crisis will "break" within the next three days and while some elements believe that at the last moment Hitler may "lose his nerve" that is hardly the majority viewpoint. France in contrast to a year ago
VM  -2-  1637, August 23, 7 p.m. (SECTION TWO) from Paris.

ago is united in its determination to see it through. As the Poles and the British are apparently similarly resolved the only escape from an armed conflict would be Hitler's yielding. (END SECTION TWO).

BULLITT

HTM:NPL
Secretary of State

Washington

1637, August 28, 7 p.m. (SECTION THREE).

Hobbe in this morning's FIGARO says in expressing approval of French monetary policy in permitting the franc to follow the pound: "Furthermore this example of Franco-British solidarity is of a nature to lead the United States to join us in reinforcing the tripartite monetary agreement which would be an important trump for the small but sincere peace front."

The Belgian MONITEUR publishes a decree extending the authority for open market operations of the National Bank of Belgium: the limit on such operations has been raised to 5,000,000,000 francs. The Belgian National Bank statement for August 24 shows gold holdings increased during the week by 244,408,000 francs. Foreign exchange holdings were up about 2,000,000 francs.

This morning's JOURNAL OFFICIAL publishes the decree law granting to Poland the 430,000,000 franc credit for purchases of war materials in France. The credit
credit carries 5% interest and is not reimbursable over a maximum period of 18 years beginning January 1, 1940.

The Swiss Government has prohibited for the time being the exportation of certain foodstuffs, fuels, metals, textiles, and rolling stock in order to prevent depletion of stocks in case of war. Holland has taken similar measures.

(END OF MESSAGE).

NPL
Oslo, August 29, 1939.

Dear Mr. Secretary:

This Legation today sent the following cable to the State Department:

"The Bank of Norway has announced that as of today Norwegian crown is not linked to pound sterling. The dollar rate has been fixed at 4.40.

Sincerely yours,

Florence J. Harriman
American Minister

The Honorable
Henry Morgenthau, Jr.,
c/o American Consul,
Bergen, Norway
I called Mr. Bolton at 10:35 a.m. I referred to his shipment of $14,000,000 of gold on the Aquitania which was now being unloaded. What were his instructions? He wanted to sell it, he said, and would confirm by cable shortly. We would probably be getting, from time to time, odd amounts of dollars from various people in New York. These dollars were the result of permission granted to sell some American securities with the understanding that the dollars would be paid to us for Bank of England account. Would we be good enough to cable him these amounts as they were received? He could give us no preliminary advice to receive because in some cases the securities were in New York and in others had to be shipped to us first. I replied that we would do, with pleasure, as requested and cable on these odd payments as received.

There was very little that he could tell me about the situation in Europe. The exchange market on the whole was steadier than one had expected, the dollar fluctuating today between 4.20 and 4.28. The Premier had just finished his speech in Parliament. The British position was unchanged. They did not intend to go back on their pledge to Poland and the defense forces were ready. Now they were waiting for Hitler's reply. In Europe one seemed to hear from time to time a very general suggestion to the effect that Mussolini might go against Hitler and this feeling, Bolton thought, might be the reason for a somewhat more optimistic atmosphere at the moment.

Was he getting some of the gold that was now being offered from 3 to 2 1/2% discount from gold parity, I asked. They had bought about
£1,000,000 in the last few days. Their activity in the exchange market was nil except for orders which they were getting from other central banks. I mentioned that the only matter of interest in our exchange market was the appearance of selling orders from Buenos Aires for fairly substantial amounts of sterling. So far the market had taken all of these offers without a ripple.
Secretary of State
Washington

1641, August 29, noon.

FOR THE TREASURY.

The volume of trading in foreign exchange this morning was of course greatly restricted by the inability of communicating either by telegraph or telephone with other centers and by the telephone restrictions even on Paris calls. There has been a strong demand for dollars and the dollar-pound rate has ranged from 4.07 to 4.27 with business done at both figures. At 11:30 it is quoted at 4.20. The franc continues tied to the pound and is held at 175., the French fund acquiring considerable sterling this morning at that figure.

After standing at two per cent since December 1936 the Netherlands National Bank has raised its discount rate to three per cent.

This morning's Journal Official publishes a long list of articles of which the export is prohibited (exceptions may be authorized by the Minister of Commerce). They include hides and skins, wool, horeses, silk, cereals, sugar, cotton, linen, petroleum, and its derivatives, metals.
metals, chemical products, cellulose, surgical and
scientific instruments, radios, tank cars and trucks.

Sentiment on the political outlook is slightly better
in the financial community this morning and there is general
satisfaction with the reported tenor of the British reply to
Hitler. Resignation announced this morning of several
Communist deputies is concrete indication of the dis-
integration of the French Communist party following the Russo-
German pact. The many restrictions on everyday life imposed
by the war measures of the past two days are being cheerfully
and philosophically accepted.

It has been reported that the Swedish and Finnish
currencies have been "detached from the pound".

BULLITT

CSB
EDASecretary of State
Washington

1310, August 29, 6 p.m.

F0R TREA S URY FROM BUTTERWORTH.

With reference to my 1279 of August 27, 8 p.m., the Bank of England has issued a notice explaining the procedure for carrying out the Treasury order. This notice is lengthy, and I will not cable it in full unless instructed. The important points are as follows:

(1) United Kingdom residents will be granted until further notice permission to transfer securities of the specified classes to persons resident in the United Kingdom provided an application has, prior to the transfer, been made to and approved by the Bank of England.

(2) Transfers by United Kingdom residents of the securities affected by the order to a person not resident in the United Kingdom can only be made on approval of a special application to the Bank of England by a bank or stockbroker.

(3) The order does not apply to a security if the
EDA - 2 - #1310, August 29, 6 p.m. from London

Treasury are satisfied that at all times since the beginning of August 26 the owner as defined in the above mentioned cable was a non-resident of the United Kingdom.

Incidentally an American banker who is a British resident under these regulations inquired of the Bank of England in regard to permission to sell American securities and it was intimated to him that permission would be granted provided he turned over the dollars to the British monetary authorities and accept sterling in return.

KENNEDY

DDM
Secretary of State
Washington

RUSH
13X, August 29, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

The exchange market and the City generally are surfeited with rumors. Sterling opened 4.26 and irregularly moved to 4.38 bid. The amount of business has been very small and this movement merely represents covering actions by a few individuals who are hazarding on a compromise solution. Most firms and individuals have either made their arrangements or fear a quick turn in the situation. All but official telephone communication with the Continent is virtually suspended which has, of course, had the effect of multiplying the rumors.

KENNEDY

ALC
1309, August 29, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The City, rightly or wrongly, did not pay particular heed to the Prime Minister’s speech and merely regarded it as a description of the situation and a re-affirmation of the British Government’s determination to stand firm. The pound remained at 4.36-37, but the market was active and individual deals took place in fairly large amounts with Paris buying and New York selling dollars.

The British fund took 140 bars of gold at the fixing when 266 bars were dealt in, 42 of which were married. The price of 137s. represented a discount on a shipping parity of 3s. 6d.

Stockholm has been quoting kroner at a fixed dollar rate of 4.20 but there have been only nominal quotations from Oslo and Copenhagen.

The stock exchange has been fairly firm with some dealings in gilt-edged at slightly above the fixed minimum prices.

KENNEDY
MA

Plain

London

Dated August 29, 1939

Rec'd 7:57 a.m.

Secretary of State

Washington

1303, August 29, 1 p.m.

For Treasury from Butterworth.

With reference to the cutting loose of the Swedish currency from sterling, reported in the last (#) of my Number 1297 of August 28, 7 p.m., the Stockholm correspondent of the London Times today states "the manager of the Riksbank H. R. Rooth explained that the step should be seen as part of the general policy of maintaining a stable domestic price level, it is emphasized in financial circles that the new parity must be considered. As tentative both as regards sterling and dollars the situation allowing no definite stand to be taken as long as the rate of the pound to dollars is not stabilized undoubtedly the new pound rate will mean a strain on Swedish export industry. Especially the timber industry which appeared not to have covered themselves to any considerable extent but it is also pointed out that in case of emergency it becomes increasingly important to have a rate of exchange which permits imports at reasonable prices".

Kennedy

KLP

(#) Apparent omission.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: August 29, 1939, 6 p.m.
NO.: 1657
FOR THE TREASURY.

The exchange market continued to operate under difficulties but is hopeful of some slight relaxation of communication restrictions tomorrow. London was a seller of dollars this morning but the latter weakened this afternoon and it gained one and one half million dollars. The British control likewise acquired 100,000 pounds of gold. The pound is now at 4.35.

A substantial amount of sterling was gained by the French fund today, Rueff tells me. The franc rate was again 175.25 after having touched 175.18. Around two million dollars were also acquired by the French fund, which used Morgana for buying about five hundred thousand dollars of this amount.

The belga, florin and Swiss franc are continuing to follow the dollar, though in a somewhat disorderly way. There was brief quotation of forward rates for one month with the franc at a premium of 30 centimes against the pound.

There was continued optimism, as reported this morning, mainly because Hitler has not broken off conversations with the British, and also because of a growing impression, which has no tangible basis, that Hitler will not dare to let loose a war at the last moment. There was a very strong securities market.
market and rentes finished up two to three francs.

Amsterdam Civil Court has declared bankruptcy for the personal estate of Mannheimer.
The Honorable,
The Secretary of Commerce.

My dear Mr. Secretary:

Reference is made to your informal request for my opinion concerning your authority to issue proposed instructions to Collectors of Customs of all seaboard districts reading as follows:

"There is a possibility that foreign flag merchant ships whose governments may become involved in war are carrying armaments capable of being mounted for offensive purposes stop Clearance for such ships will be withheld until this Government is certain that no such armament is being carried stop You will withhold clearance papers from all ships suspected of carrying such armament until detail report is made to this Department and until specific instructions are issued stop Take all precautions to prevent disclosure these instructions."*

Section 91, title 46, U. S. C., requires all vessels to secure clearance from Collectors of Customs before departure from an American port, and section 1581, title 19, U. S. C., authorizes officers of Customs to go on board any vessel at any place in the United States for the purpose of making examination to determine whether it appears that a breach of the laws of the United States is being or has been committed.
Sections 23 and 29, title 18, U. S. C., read as follows:

"§23. (Criminal Code, section 11.) Arming vessels against friendly powers; forfeiture of vessel. Whoever, within the territory or jurisdiction of the United States, fits out and arms, or attempts to fit out and arm, or procures to be fitted out and armed, or knowingly is concerned in the furnishing, fitting out, or arming of any vessel, with intent that such vessel shall be employed in the service of any foreign prince, or state, or of any colony, district, or people, to cruise, or commit hostilities against the subjects, citizens, or property of any foreign prince or state, or of any colony, district, or people, with whom the United States are at peace, or whoever issues or delivers a commission within the territory or jurisdiction of the United States for any vessel, to the intent that she may be so employed, shall be fined not more than $10,000 and imprisoned not more than three years. And every such vessel, her tackle, apparel, and furniture, together with all materials, arms, ammunition, and stores which may have been procured for the building and equipment thereof, shall be forfeited; one half to the use of the informer and the other half to the use of the United States. (R. S. § 5283; Mar. 4, 1909, c. 321, § 11, 35 Stat. 1090.)"

"§29. (Criminal Code, section 17.) Retention by collectors of customs. The several collectors of the customs shall detain any vessel manifestly built for warlike purposes, and about to depart the United States, or any place subject to the jurisdiction thereof, the cargo of which principally consists of arms and munitions of war, when the number of men shipped on board, or other circumstances, render it probable that such vessel is intended to be employed by the owners to cruise or commit hostilities upon the subjects, citizens, or property of any foreign prince or state, or of any colony, district, or people with whom the United States are at peace, until the decision of the President is had thereon, or until the owner gives such bond and security as is required of the owners of armed vessels by the preceding section. (R. S. § 5290; Mar. 4, 1909, c. 321, § 17, 35 Stat. 1091.)"
Construing section 23 above-quoted the Court in The Meteor, 17 Fed. Cas. 178, said in part:

"The mischief against which the statute intended to guard was not merely preventing the departure from the United States of an armed vessel, but the departure of any vessel intended to be employed in the service of any foreign power, to cruise or commit hostilities against any foreign power with whom the United States are at peace."

Under the above-quoted statute, read in the light of the decision of the Court in the Meteor case, it is believed that authority exists to withhold clearance of a vessel until it can be determined whether the vessel has on board armaments capable of being mounted for offensive purposes. Whether clearance could be refused after such examination even though such armaments were found on board would depend upon all of the facts disclosed by the examination. It is doubtful whether the mere possession of such arms would of itself authorize refusal of clearance, but this fact together with other facts disclosed might be sufficient to justify the conclusion that it was the intention of those in charge of the vessel to use it after its departure as an armed vessel to commit hostilities against a foreign state with which the United States are at peace, in which event I am of the opinion that you would be justified in holding the vessel under the statute.

Respectfully,

[Signature]

Attorney General.
Notes Regarding the Bremen
August 29, 1939.

The Bremen after docking and discharging the passengers yesterday wanted to turn around and sail without passengers or cargo at 8:00 P.M. last night. Her request for clearance papers was refused. Whereupon she said she would sail without the necessary papers. However, as the Collector at the Port of New York had made arrangements whereby neither tugs nor pilots would be available, the Bremen did not leave illegally as she had threatened.

In addition, Coast Guard cutters were stationed in the North River close by, which would in the event of necessity at least partially block her if she attempted to leave the pier.

As the result of these measures, the Bremen asked for clearance at 8:00 A.M. today, but clearance papers were withheld by the Collector until an exhaustive examination could be made. This examination disclosed nothing unusual, no ammunition, and no guns. There were only two items found; a Zeiss camera, and a 3-inch gun emplacement on the after deck.

During the day the Treasury was notified that the Bremen had taken aboard approximately thirty physicians and technicians who were signed on as crew. These persons were later put back on the dock presumably to avoid any further complications or investigations.

The Department of Commerce cooperated and made a complete inspection of the Bremen lifeboats and conducted a lifeboat drill. All of the investigations made with respect to the Bremen were also carried out with respect to the Normandie.

Tonight Harry Durning says that there is no longer any excuse for holding up issuance of the Bremen clearance papers.
MEMORANDUM TO THE FILES

Conversation between Mr. Durning, Collector of the Port of New York, and Mr. Hanse. Time 5:36 to 5:50. (Mr. Gaston was listening in on this conversation.)

Hanse: We haven't got anything more to offer.

Durning: I was going to give you till 7 o'clock and then call you. Would you want to drop this call. I don't like it coming through here, and come through Bowling Green 9765?

I didn't think you would because we had exhausted ourselves on that. We got hold of tug boat people; they will not supply a boat pilot tonight. They won't get a pilot from the association. We are all right for tomorrow morning. Now to get through tomorrow morning, I think I have got to hold up for 5 hours the Normandie and for 6 hours the Aquitania. We are in a ridiculous position. Here are boats going out with passengers and cargo, and here we are holding a boat that is just going out with a crew alone. We are holding ourselves in a ridiculous position. We haven't finished our search and we're going to search all three boats tomorrow morning. I can get hold of Gavy on the Guardian Line and I think the French people will see the point.

Hanse: I think it is very important that you get some word to them, and I would go ahead and do it on that basis. It seems to me to be reasonable and I think it would save an awful lot of embarrassment.

Durning: I am thinking more of that than of anything. I can say I have called off the examination on the one tonight. I was going to do it tonight, and put them all to work tomorrow and delay the three of them. Would that be understood across the street?

Hanse: Yes. Wait a minute. I reported over there that we were treating the Normandie and the other ships in every way same. Also that we had even delayed the clearance of some American flag ships, so I think we are all right on that one.

Durning: You said you were speeding the Normandie?

Hanse: No. I said we were delaying here, treating her the same.

Durning: We are in a fairly good spot if we have a French boat, an English boat, and a German boat all delayed together. The Transylvania doesn't mean anything. Then I would continue the search on all three boats tomorrow and then give them all clearance at the dock at the same time.

Hanse: I certainly think there could be no criticism on that one. The only trouble would be with the other people, the other two.
During: They know we were giving them the same treatment. But the press isn't paying any attention to it.

Hanes: Maybe they will when they see you mean business on all three alike.

During: That was going to do was clear them all tomorrow morning.

Hanes: That makes damn good sense to me, Harry, and unless you have some difference, I will talk about this some more tonight, and I would think that unless you hear any differently from me tonight, I would just stand on that.

During: We have got a break on the weather here tonight. We have got a northeast storm blowing right down the River, and I don't think that one boat would get out in any event. She would mess herself up terrible. Now, we can keep offshore the tugs and everything else, so that she would have to go out herself. We might be able to hold the lines there. Now, you get the one thing, of course, that we talked to the Coast Guard last night about, that is if she started out. I have a cutter up the River all set—come down and block her out. You got a big question there. It didn't come up today and I don't think it will come up tonight, but maybe tomorrow.

Hanes: Harry, Herbert and E. M. Foley had a talk with Covell and cautioned him that it was important not to let her get out into the stream in the slip.

During: That is the last thing I want. The only point would be, it is all in our favor tonight and again at the mouth without tugs pulling out of a slip, she would be faced right up the River, because as she come out this breeze would probably swing her around. The wind would come down the River and she would come out. That would push her bow right into the pier. To get out she would have to have assistance to hold her firm and then swing. I don't hesitate a bit to take the Coast Guard and shoe off the tug fellows because she has no clearance, and they have no right to help a boat without clearance. (If she tries to go out?) shall we stop her at that time. We have got to (pull?) down the cutter that we have north and put her across the stream. That almost gets down to a—act. We got all set when she starts out. I got a boat right across the River, another one right up Seventy-ninth Street, and she would come right down. That end is all taken care of. Now, I might probably be safe tonight long as I can hold her with this breeze and she not able to get any tugs. Once she starts down she will go down 15, 16, 20 knots an hour. Anything that got in front of her, boat of that size, plough right through it.

Hanes: We have to try to keep her from getting out of the pier if she tries.

During: To hold that Normandie up tomorrow and hold up the Aquitania and give, the Transylvania is only an hour, and see that the search tomorrow is going to continue on all three boats.

Hanes: I think so, Harry.
I think that is the only thing to do, because that will save our faces, and I think the only thing to do is let them know that -- they all can go out at the same time.

I think that is all right unless you hear differently from us tonight. Where are you going to be tonight?

I think I might want to get hold of Geny of the Cunard line. I can get both -- or someone else (in?). -- I will stay right on the job.

What is a telephone that we could call there that you could keep posted as to your whereabouts?

White House 44300.

I don't expect to call you any more tonight unless some different instructions should be necessary. You can't do anything tonight anyway.

I will get in touch with both the French line and also the British line. If they start raising hell down there through the State Department, just give them a little appeasement. The only way. You fellows (agree?)

Absolutely.

I will take care of the State Department if any squawk comes there.

1 original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Mr. Feis of the State Department and Mr. Hanes. Time 5:12 to 5:16.

Hanes: I reported that matter across the street just as I reported it to you, and we now have different instructions than that. They are not going to let her go. So I have got to change my story that I told you.

Feis: Those are your orders. Now were you told to explain it?

Hanes: I wasn't.

Feis: It's going to be a mess, isn't it?

Hanes: I understand that the President discoursed on the subject for a long time.

Feis: Did you see the ticker?

Hanes: No, I was told about it. He told quite a long story about it.

Feis: Where did he get the stuff from?

Hanes: No.

Feis: Is there any ground in it for explaining why it isn't to go?

Hanes: The only thing we can say is, "Harry, hurning, just say that your inspection is not complete."

Feis: Is there anything in the press conference of the President today that would explain it?

Hanes: He was explaining why the American Government must protect itself. He said today that the United States has adopted a policy of searching merchant vessels of nations (of any?) big belligerents so as to avoid the possibility of this country becoming liable.

Feis: What I am afraid of is that by doing this he prejudices something about the Neutrality Act.

Hanes: I see what you mean. I am afraid he is unwise, but hell.

Feis: I don't know. You want to sit down and talk with us?

Hanes: I don't believe so.
Feis: The last time I spoke to you I was right in Belloe's office, and there was a definite feeling that while we are glad of the opportunity we are going to keep up. But with the news you give me we may turn around again.

Hanes: I think this a more serious one because they are getting restless. The only news in New York today is the Bremen and the English note.

Feis: Well, there may be more news before morning. I will report this downstairs right away.

Hanes: If they want me, Herbert, call no back right away. I will run over there if they want to talk about it, and I want to do the right thing and yet I want to carry out instructions. We got them over from the telephone personally, directly from him, through no intermediary.

Feis: I will report at once, John, and let you know.

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1 original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Mr. Burning, Collector of the Port of New York, Mr. Hanes, and Mr. Cairns. Time 4:50 to 4:57.

Hanes: Now, I just discussed that situation with that gentleman, and he doesn't want that thing to get out tonight, and he said, "Tell Harry that I said I wanted that boat held 24 hours, and last night at 6 o'clock was when she got here, that would be tomorrow night at 6 o'clock." I am just repeating to you what he said.

Durning: That is all right. That is the orders. We got to contemplate difficulties.

Hanes: You going to have some trouble?

Durning: I think so. They are waiting for the (tidal). We will just tell them there is no clearance. I don't know what the dickens we can do now.

Hanes: Maybe some of those doctors and technicians, maybe they should have a going over by the FBI. Has she got passenger clearance? She has no passengers. Here's Huntington Cairns.

Cairns: Did she surrender her passenger certificates?

Durning: No. We have her official papers. We cleared those last night. The point here would be that she did probably through the day, we kept going on. We picked up one Zeiss camera.

Cairns: Now, suppose you held that these 30 technicians were passengers and not members of the crew?

Durning: They took them off. That baggage all came off. They are ahead of us on that.

Hanes: (?) They took the 30 men off. Have you given it a shakedown?

Hanes: Well, listen. The idea is to find something with some way to comply with this order and not get us in trouble.

Durning: We can just say we refuse clearance. You see, you have that Normandia in here. We went along pretty well (too). The same to her as to the Bremen. Of course, the newspapers didn't take that at all. So we followed that out. We have pictures here on the front of the New York Sun.
of lowering the life boats. How the only thing I can see is just –
we find all these things last night. But you know – the Germans have
been very punctilious, and we are going in and going out of port. I
expected that we would have – we are really on the spot on it. I will
have to be on the spot, that is all. Next to Hitler’s answer to
London, they think it is the biggest thing we have here (the Bremen’s
being held up). I am going to see what we can try to work out and
keep our face clean. But what the dickens reason I can think of there.
I can put them back there again tomorrow.

Hanes: Harry, you stand by and we will put our heads together here and see
what we can figure out.

Durning: The only thing we can do is say it is not complete. In the meantime
we have to clear the Normandie.

Hanes: If you could hold her up the same time, well so much the better.

Durning: Well, we can hold both of them up and give it to them. It would be
the easiest thing to do.

Hanes: Well will explore that possibility and call you back.

Durning: I will stay right here.

1 original and 2 carbons made.
August 29, 1939.

MEMORANDUM TO THE FILES:

Conversation between Mr. Cairns and Mr. Hanse. Time 4:01.

Hanse: The State just called and said that everything to do with these professional and technical men on the Bremen so far as they knew was under the Department of Commerce. In the Immigration or State had nothing to do with it. They made this suggestion: Is the FBI satisfied with the departure of those people?

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1 original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Mr. Irving F. Wixon, Deputy Commissioner of Field Service, Labor, and Mr. Hanes. Time 3:30 to 3:32.

Hanes: I was calling Mr. Broughton to talk a little bit about these, some members of the crew signed on the Bremen in New York. I wonder if the Department of Immigration any interest in the signing on the Bremen as members of the crew, about 30 technical men and physicians. I am assuming they are all American citizens.

Wixon: Are they in excess of the regular crew, do you know?

Hanes: No.

Wixon: No, I don't think that we would be particularly interested at this time.

Hanes: All right. Fine.

Wixon: I can't conceive of any control that we would have. If they were coming in with excess crew members, then we would have some control, but not on seamen departing unless we wanted to hold them for some reason, and we wouldn't have any authority to hold them.

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1 original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Mr. Feis of the State Department and Mr. Hanes. Time 3:54 to 4:00.

Feis: John, the Secretary and Welles are deep in a conference over an important communication and they will be for a while, and I can't get to them. Meanwhile we have talked to our legal staff. They say that the laws applicable in the administrative responsibility of the Bureau of - over at Commerce. They talked with Sweet, who is extremely interested. We assume that you are in touch with him.

Hanes: Yes, our legal staff is.

Feis: There doesn't seem to be anything in our jurisdiction on the matter.

Hanes: Our impression was that if we wanted to pay any attention to it we might delay and explore, but I don't think any good will go. I think we have gone about the limit.

Feis: This is a personal angle, not State Department. There wouldn't be anybody in that list of interest to the FBI.

Hanes: I know that is being taken care of. That part of it is all right.

Feis: That is about all I can say to you in the absence of Welles and the Secretary.

Hanes: You haven't got any news on the new war?

Feis: Again I am a couple of hours behind. The last impression is still that it is up to Hitler. This note of Chamberlain was very firm, and it is Hitler's big decision as to whether he wants to talk with the Poles or march. Three choices: Talk to Poles, march, or talk to the British. Another message to the British. If that takes a sensational turn I will telephone you.

1 original and 2 carbons made.
Memorandum to the Files

Conversation of Mr. Hanes with Dr. Herbert Feis of the State Department on August 29, 1939 at 4:30 p.m.

Feis: Hello, John. Just wanted to let you know, as I promised you, that things look very black tonight.

Hanes: Is that so?

Feis: What Hitler said - incidents last night - seems very bad business. Information just coming in that Poles charging Slovakian Germans threatening her independence, and this comes pretty close to what her statement with England calls for help in. Few disturbing things in Germany.

Hanes: Any hope at all?

Feis: Tonight there looks as though there could not be any hope. Hitler's terms - if agreed to - worse than Munich.

Hanes: Any thought as to time schedule?

Feis: No. Just thought you would like to know. We're not talking here about it - although newspapermen probably know all about it. Keeping still about it - private.

Hanes: Thanks Herbert.

*End*
Memorandum to the Files:

Conversation of Mr. Hanes with Dr. Herbert Feis on August 29, 1939 at 4:20 to 4:22 p. m.

Feis: Hello, John.

Hanes: Herbert, this will be the last time I will call you. Am trying to get the President now but he is in a press conference. Buming says we have done everything and will only look ridiculous if we keep it up.

Feis: I'm here in the Under Secretary's office now. Have arranged to have you check with Commerce, etc. Wait until I tell him what you just told me. (Repeats above to Welles). No comment here - up to President.

Hanes: Okay, thanks.

"End"
Memorandum to the Files:

Conversation of Mr. Herbert Gaston with Mr. Harry Durning, Collector of the Port of the City of New York on August 29, 1939 at 4:00 to 4:09 p.m.

Durning: Well, Herbert, I think we have just about reached the end of our rope on this thing now.

Gaston: You have just about examined her, have you?

Durning: Yes. (Then read from New York Sun, apparently a very critical article about how they were needlessly holding up the Brunen). We have to stop examining sometime.

Gaston: Well, what do you suggest?

Durning: They wanted to get away at five o'clock. Thought we could make a deal with them.

Gaston: You can give them clearance tonight?

Durning: Well, there's a tide tonight; otherwise tomorrow morning. That O.K?

Then Mr. Hanes came on.

Hanes: Hello, Harry, how are you? I don't see that we can do anything else. I think we have done everything. My suggestion is that you say yes but I want to first make one call - you understand? Get final O.K. and will call you back in fifteen minutes.

Durning: Okay, I'll wait here.

*End*
Memorandum to the Files:

Conversation of Mr. Eames with Dr. Herbert Feis on August 29th, 1939 at 8:34 p.m. to 8:38 p.m.

Feis: John, I am told the noon papers carried this story. Seventeen fellows taken off — to Ellis Island?

Eames: Just talked to Coast Guard on that. Understand it was thirty technical or professional men — SO on board. Where did story come from?

Feis: Wait until I see (aside to someone in his office — Where, etc?) Then — the story came over the air, John.

Eames: I did not hear that — although we've been listening off and on. Wait until I ask Herbert here — (then asked Mr. Gaston and Huntington Cairns). Herbert Gaston tells me that they took off 17 people this morning but it has nothing to do with us; number crew on as passengers. Sent to Ellis Island.

Feis: That seems to straighten it out — going ahead with legal opinion; meanwhile, you getting in touch with Department of Labor?

Eames: Understand Houghteling not in town. Who is acting in his place? (Feis asked someone in his office this question but received no answer).

Feis: I don't know.

Eames: Okay, I’ll call Houghteling’s office and find out.

End
MEMORANDUM TO THE FILES:

Conversation between Mr. Feis of the State Department and Mr. Hanes, Time 3:16 to 3:20.

Hanes: Bremen again. I just want to keep you posted. The last thing we had from Bremen has taken aboard a lot, quite a few, technical men and physicians and signed them on as crew.

Feis: Is that legal?

Hanes: I guess that is legal. I don't know, I don't know as there is any objection to that. They can carry as many physicians as they want. Herbert says, German reservists.

Feis: There is a fellow over here. Can he leave without notice?

Hanes: I don't know (?) whether we can stop them from leaving or not.

Feis: Can't get Jack Worth so I will have to take that up later. They have taken aboard quite a group of physicians and technicians which they have signed on as crew. What about the status of their clearance papers?

Hanes: They have found nothing. They are still in the process of making a very thorough examination, including their medical supplies. They have found no ammunition, no guns, just an implant for carrying a three-inch gun and an ammunition hoist just underneath. That is something we can't complain about. The Department of Commerce through the Marine Inspection Bureau has ordered the life boats lowered and is making a thorough inspection of the large boats of the Bremen. We have also, they have ordered the same inspection of life boats on the Normandie.

Feis: How long are we going to keep the Normandie here?

Hanes: She will go out tomorrow, just at the time she wants to go out. We are going through a lot of inspection.

Feis: All right. I will report that and see that the information regarding these fellows is brought to the attention of our legal officers and if we have any comment or objection we will telephone you back. Are you letting the Department of Labor know?

Hanes: I don't know it was concerned.

Feis: I don't either. They are in charge of aliens in this country. I have an idea that you would find they may want to check up on these as individuals.

Hanes: Maybe we had better call Mr. Houghtling.

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1 original and 2 carbons made.

August 29, 1939.

Regraded Unclassified
CONVERSATION BETWEEN MR. RONALD RANSOM OF THE FEDERAL RESERVE BOARD AND MR. HANES.

Time 3:10 to 3:15.

Ransom: I don’t think the bond market needs much comment today.

Hanes: I thought it did beautifully.

Ransom: Stock market was optimistic about the outcome also.

Hanes: Situation look any different to you?

Ransom: Well, no, I can’t see that there is any difference here. I just read on the ticker that Hitler had demanded the return of Upper Silesia. First thing you know he will ask for everything that isn’t nailed down.

Hanes: It doesn’t look bright to me. As far as immediate peace is concerned I have a very definite suspicion they will give him a good deal in order to keep peace.

Ransom: I don’t know as I like that tone.

Hanes: I don’t like it at all. But from my own immediate point of view, peace is peace.

Ransom: But in terms of a few years it looks like a very tragic solution. I don’t know how he does it.

Hanes: Well, I guess he’s got strength on his side for the moment.

Ransom: Yet he seems to me to be gaining strength all the time.

Hanes: It is always possible the old Napoleon story may be retold. That is a long range view to take of this thing. I would have thought when they appeared to have his back to the wall they might have bluffed him. I can’t imagine anyone on earth with an unhappier job than Chamberlain. But I think our market situation is as good as we can expect.

Ransom: I don’t think we have anything to complain of there at all.

1 original and 2 carbons made.
Memorandum for the files:

Conversation of Mr. Nance with Jerome Frank on August 29, 1939 at 11:30 a. m.

Frank: It looks pretty good today - from here as far as the market is concerned.

Nance: Everything quiet over here today too.

Frank: They opened up you know - wheat is off, which I think is bullish. Shows the boys don't expect a war. Talking to Berle?

Nance: Haven't talked to Adolf since last night - they have no information whatever. With the French cables out, they have no news at all. Nothing from the British either - no text of their note, and of course then no reply from Hitler.

Frank: You saw the ticker on Chamberlain's speech?

Nance: Yes - looks like the British are coming around.

Frank: If I were Chamberlain and had the responsibility of whether or not London would be bombed in a few hours, I'd do everything in my power to prevent it too.

Nance: I suppose so - the State Department just can't get any information that's worth a damn except news over the radio.

Frank: You know, Johnnie, I told you my crazy idea of this whole thing, didn't I? I think it's a deal and Chamberlain has been in on it all along.

Nance: No, you didn't tell me.

Frank: Thought I did. (not exact wording here) If you were running British Empire, you'd think it was more important than Europe, wouldn't you? If you get Russia and Japan and worked out some settlement of European policy for decades - with them laying off British concessions in China, laying off India, with Russia laying off Siberia, etc. - work out a peace treaty. Perhaps it sounds crazy - maybe I am - but I believe Chamberlain has been in all along on the Russian-German deal - then a lean to Germany, etc. The whole thing just squashes Japan to nothing.

Nance: It certainly would be to the British advantage, and I don't think it's so crazy - that's very sensible thinking to my mind.

The rest of the talk pertained to the Reynolds Investing matter. Frank said he talked to Almer - wants to talk to Mide. Thinks he didn't know about it. Perhaps someone else made it up and it got out with Mide about it. Perhaps someone else made it up and it got out with Mide knowing about it. Go to Gerdie to straighten it out. If not that way, knowing about it. Go to Gerdie to straighten it out. If not that way, complaining how it's all wrong. Will thank him and even facts were cock- eyed - sorry he missed him at Mayflower last night after radio address. Frank to see Mide as soon as present crisis lets up.

FLG

Regraded Unclassified
August 23, 1939

CONFIDENTIAL TO THE PRESIDENT

Conversation between General Watson of the White House and Mr. Hanes. Time 11:20 to 11:23.

Hanes: This is a matter, I am just trying to keep the President posted on what is happening to the German ships in New York. The Bremen asked for clearance last night at eight o'clock and was refused because we had not had sufficient time to make inspection. One of her officers announced to the Customs people that she was going to sail without clearing. Bureau arranged for no tug and no pilot, so she couldn't sail. All that passed without incident; there wasn't any unpleasantness about it. Harry said we had to make the inspection under the laws; she would just have to wait until we could get to them. We also refused clearance to the Normandie, which puts us in a much better position. We refused her on the same grounds, identical. So there is no question of favoritism.

Watson: The Bremen is waiting? (?)

Hanes: Yes. We are inspecting it now. Inspection probably be completed this afternoon or tomorrow morning.

Watson: Didn't you say Morgenthau back Friday?

Hanes: I hoped so, but no chance. The Campbell has been delayed. He won't get back now perhaps before Sunday.

Watson: You said he was going to start, sail Monday and get here Friday. He said he could not do it. Boat could not get there that fast.

Hanes: We figures five days and a few hours into Boston harbor, but we planned to take him off with a Coast Guard plane and beat the schedule by 24 hours. He is in Bergen now, we know, and supposed to sail tonight.

Watson: I will tell him.

Hanes: Thank you.

1 original and 2 carbons made.
Conversations between Dr. Feis, Economic Advisor, State Department, Mr. Haines, and Mr. Gaston. Time 11:12 to 11:16.

Feis: I have spoken with Mr. Welles on this. He said no comment on what's going on as to the handling of it. Apparently Herbert Gaston told the press this was being done to make sure that they weren't carrying arms and for particular means. See the State Department.

Haines: I don't think he told them that.

Feis: That is what the newspaper men are telling us.

Gaston: Hello.

Feis: Thomas is right here. He says that the newspaper men tell him that you said the Bremen was being held for thorough customs inspection looking for armaments that might be used to pray on shipping in the event of war.

Gaston: I didn't say that. I am reading it: (Press release that came through from UP).

Feis: That is all right.

Gaston: UP is all right. They pressed me on this question of privateering. I told them I wouldn't make any comment on that. They wanted to know whether any question of armaments entered into it. I said it may be I didn't know. They asked me at the State Department would have information about the treaty.

Feis: That is where the State Department came in.

Gaston: That is right. If they wanted to know what our obligations were with respect to armed vessels, etc., I said the State Department would have the information.

Feis: On the handling of this thing, both Hull and Welles say that the administration of these laws is certainly Treasury and Commerce, and we have got to be careful to avoid confusion, and therefore we will not say anything about it. I doubt whether we will even comment on this treaty angle. It may be that if newspaper men are in solely for background information as to what our treaty says about merchant ships carrying arms, I don't know. But certainly on any active ways we are going to
MEMORANDUM TO THE FILES:

Conversation between Dr. Feis, Economic Adviser, State Department, and Mr. Hanes.
Time 10:38 to 10:50.

Feis: We are so busy it is impossible to know what is going on.

Hanes: I am just calling you to pass you. I couldn't get Summer, so if you will pass it on to him in due course - . This is about the Bremen. You undoubtedly saw the newspapers, and just to keep you posted, she asked for clearance, we didn't give it. She then said she was going to sail without clearance, but she didn't do it. Couldn't get any tugs and no pilot. Said she wanted to sail this morning at eight o'clock. Burning hadn't completed his inspection.

Feis: Will you dictate this?

Hanes: The Bremen asked the Collector of the Port of New York Harry Burning for clearance last night at eight o'clock. Clearance was refused on the grounds that they had not had sufficient time to make a complete inspection. We were informed that the statement was made that they were going to sail without clearance. However, no tugs nor a pilot were available, so she could not carry out the threat to sail without clearance. She then asked to be cleared at eight o'clock this morning, and Collector Burning informed her that he would complete the inspection at the earliest possible moment. She has not cleared yet.

Feis: You mean she has not received clearance papers yet.

Hanes: That is right. An interesting thing there. There are a great many foreign vessels asking immediate clearance, and we have already refused clearance to Normandie and we are doing the same thing with her. Well, say the Normandie applied for immediate clearance. I should say she asked for clearance papers to be issued to sail at her regular sailing time. She made no request for hasty departure, but we refused the granting of clearance in advance of inspection. The Collector states that he's got all of his available men on duty and the clearance work is going to be slowed up in the normal course of events as there are a great many foreign flag vessels that are asking clearance papers simultaneously.

Feis: All right.

Hanes: Let me see if I have got anything else here. I believe that is all I have got.
Feis: First I want to ask you when you anticipate the - to be finished.

Hanes: We can't tell, but it would appear that her examination will be completed some time in the forenoon, and she will probably sail in the afternoon.

Feis: It may be that you will find something, but I suppose if they are notified in advance they would get rid of anything they wouldn't want you to find. Have you a force watching them? Suppose they had arms on board and tried to dispose of them?

Hanes: I understand the men are on board now.

Feis: If last night -

Hanes: We wouldn't have had any way of knowing it.

Feis: But if they are really heavy guns they are not easily disposed of. You are reporting the main points of this directly to the White House?

Hanes: No.

Feis: I think the Secretary would probably want to pass that on. Do you want him to?

Hanes: I would be delighted. Say we are going to instruct Durning after he is satisfied, there is no legitimate reason for holding her further. We will instruct him to notify us ten or fifteen minutes before clearance, and we will notify the President that we haven't any reason to hold her further.

Feis: (Dictating) Acting Secretary Hanes said that he had not transmitted the above information to the President and would be glad if the State Department undertook to do so.

He stated that he anticipated that the inspection would be completed some time this forenoon and that he had arranged with Inspector of the Fort Durning

Hanes: Collector of the Fort.

Feis: Collector of the Fort Durning to notify him, say fifteen minutes before -

Hanes: Before actual issuance of clearance papers.

Feis: Before the issuance of clearance papers, and Mr. Hanes planned on receiving such notice from Mr. Durning to inform the President so that if the President had any further suggestions at that moment, time would still be available.
Hansel: I think it is an important matter that we are acting the same in the case of the other ships. I thought maybe you would be having calls from the German Embassy or somebody, and I wanted to get this news to you.

Feis: I haven't heard of any. I think the Embassy is in such a turmoil. As to the whole situation, it is the most pressing, because here are the British talking to Hitler. We haven’t got the text of what he is saying. Neither have the Poles. We have got a summary. They have got summaries. It is not even certain that the summaries are identical, so what the hell the British Cabinet and Germany (chairmen?) are up to nobody knows, and it is a very troublesome situation.

Hansel: They are not communicating with either the French or the Poles?

Feis: They give us summaries. There is reason to believe the summaries are not identical. Not necessarily a fact. They do not even give it to the House of Commons. There is a chance of a breach arising between the French and the British. Anything can happen.

Hansel: It is a perfect situation, isn’t it?

Feis: This is completely confidential. Don’t tell it to the press. They would give their eye teeth to have that.

1g

1 original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversational between Mr. Harry Durning, Collector of the Port of New York, and Mr. Gaston. Time 9:45 to 9:51.

Durning: Herbert, how are things? Well, she got out. We have got about 35 men on her. We have the navigation inspected, we have the check of the crew. For an amendment of their application clearance, I guess she figures she had better not go out without clearance.

Gaston: It will take till tonight sometime to finish, won't it?

Durning: I think so. We are checking grocery stores, everything else.

Gaston: Now, Harry, we are saying here that careful examination is being made of all ships in foreign trade, regardless of nationality, to insure compliance with the laws. We are not saying anything about - of privateers. One of the press associations attributes something like that to you or one of your men.

Durning: That was not so good.

Gaston: I would be careful about that. Did you say that or did one of your boys say that?

Durning: Yes. That was here. We just got to talking generally. That is all right.

Gaston: Well, we had better stick to the general compliance with all the regulations.

Durning: That is what we are sticking to -- That wasn't said by me, but I didn't think it would even go into the newspapers.

Gaston: Well, we are just checking for -- We are doing it to all foreign ships alike.

Durning: Foreign ships are being shipped right in here. There is no question about it.

Gaston: Did the Normandie ask for clearance?

Durning: We refused it.

Gaston: When did she want to go?

Durning: Oh, she is going tomorrow morning at ten o'clock.
Gaston: Is that her regular schedule?

Durning: That is what she scheduled in the newspapers.

Gaston: She asked for clearance and you refused it until you made the check.

Durning: Yes.

Gaston: That is very fine. It won't do any harm to mention that. It will help us quite a bit.

Durning: Additional men there. We are checking on the Mauretanian.

Gaston: They are doing the same thing on that. That is fine.

Durning: The Transylvania. We worked on the De Grasse all last night. That is going out this morning. Not a boat is getting clearance.

Gaston: Be sure that gets out to the papers.

Durning: Sure thing. We are getting it. They were getting it all last night and they wouldn't touch it. They hardly mentioned about the Bremen and the De Grasse.

Gaston: The thing doesn't look any worse today.

Durning: They won't go out now. We have got a slack tide.

Gaston: When's your next flood?

Durning: Coming down the River. They won't go out -- I mean all had -. We raised our plans. We got the -- started. If she proceeded to get out in the River I would then let her go rather than start anything going. With so many men on her she would not take a chance on going. So that thing is all taken care of. I will know when I get my reports back --- . Next tide will be about six hours.

Gaston: If she sails tomorrow morning, I think it would be satisfactory.

Durning: I will try to do that, have her clearance and sail tomorrow. You'll probably do more after you hear from the State Department. We got through at 2:30, back at 7:30.

1 original and 2 carbons made.
Dear [Name],

Thank you for your good work.

Harriet told me that you are going to move away.

Harmel will let you know if you can be of any help to me.

Harriet will do the rest.

If you could get some work done out of that occupation of the household (1) next.

You have to build a platform in the back yard.

Harmel

You have to hear something about that other thing you.

Stool will be moved today. I wish you would give me some job to do.

Command of house, which one could do it. Then there will be about
freight work.

Harmel

Where did the information come from.

Harmel

When is the household furnished around.

Harmel

If there is any time mail should
book, go to South America or get work. If there is any time mail should
not be returned.

Harmel

The State Department has issued a statement. The Post Office Department
make that clear.

Harmel

Several times, and let him know.

Harmel

(1) Take care that all the facts are correct.

Harmel

(1) as before of foreign affairs at the moment.

Harmel

Rex, but he is busy.

Harmel

It is in your interest as well, do courage and keep the
reasoned.

Harmel

How on what things you found me about. Embolded try and the day before
reasoned of the United

Munoz 30, 1939.

Regarded Unclassified
Memorandum to the Files:

Conversation of Mr. Hanes with Mr. Ronald Ransome on August 29, 1939 at 8:39 a.m.

Ransome: Just before we go into our meeting here, I would like to check with you and see if there are any developments that might influence things.

Hanes: Nothing new at all and we don't know a thing. Just waiting for British reply. Checked with State Department — with their cables out — all they know is what they read in the newspapers. Just have no information that could be helpful.

Ransome: George Harrison reports that $——— reports foreign currencies up — sterling 4:35. Don't expect much today but apparently no news that would affect market unduly. All we can do is watch developments of news and market. Marriner back in town but just getting the feel of things before he does anything. If you need either of us, we are both available.

Hanes: Okay and thanks. At the moment we have nothing here — Danny Bell says he has nothing either. We will call you if we do.

"End"
Memorandum to the files:

Conversation of Mr. Hanes with Mr. Harry Durning, Collector of the Port of the City of New York on August 29, 1939 at 6:15 p.m.

Hanes: Hello, Harry?
Durning: Yes. Both French and English going along with us. Just waiting for Germans now and will tell them that.

Hanes: That's swell. Do they understand it? Make any complaints?
Durning: Well, it's O.K. They didn't like it much but - good of the service. Only thing now to hold her in.

Hanes: Thanks, Harry.

*End*

Note: Mr. Hanes then called Under Secretary Walles' secretary to repeat above and Mr. Hanes told her in addition the French and English were cooperating beautifully.
The "Bremen" after docking and discharging the passengers yesterday wanted to turn around and sail without passengers or cargo at 8:00 P.M. last night. Her request for clearance papers was refused. Whereupon she said she would sail without the necessary papers. However, as the Collector at the Port of New York had made arrangements whereby neither tug nor pilots would be available, the "Bremen" did not leave illegally as she had threatened.

In addition, Coast Guard cutters were stationed in the North River close by, which would in the event of necessity at least partially block her if she attempted to leave the pier.

As the result of these measures, the "Bremen" asked for clearance at 8:00 A.M. today, but clearance papers were withheld by the Collector until an exhaustive examination could be made. This examination disclosed nothing unusual, no ammunition, and no guns. There were only two items found: a "Pea" camera, and a 3-inch gun emplacement on the after deck.

During the day the Treasury was notified that the "Bremen" had taken aboard approximately thirty physicians and technicians who were insane on her crew. These persons were later put back on the dock presumably to avoid any further complications or investigations.

The Department of Commerce cooperated and made a complete inspection of the "Bremen" lifeboats and conducted a lifeboat drill. All of the investigations made with respect to the "Bremen" were also carried out with respect to the "Normandie.

Tonight Harry Durning says that there is no longer any excuse for holding up issuance of the "Bremen" clearance papers.
CONFIDENTIAL

29 August, 1939.

MEMORANDUM FOR ASSISTANT SECRETARY GASTON:

From information received this morning, the German SS COLUMBUS is now at Curacao, Dutch West Indies, to stay indefinitely.

Italian vessels receiving orders from the Italian radio station at Coltano during the last twenty-four hours are as follows:

ALABAMA - Reenter port for loading; await orders; acknowledge
ARCOLA (tanker) - Set course for Canary Islands; slow speed; listen for instructions
ANTERO - Call in at Bermuda; await orders; acknowledge
MONTOVANI - Remain Aruba; await orders; acknowledge
MARIA ROSA - Depart at once; direct your course towards Genoa; telegraph Coltano your destination
LUCIANA - Wire Italian Ministry Marine
NITA - We repeat go to Cuxhaven; confirm
LUISIANO - Proceed to Venice
VELOCE - Follow charterer's orders precise position
VIDOR - Go first to Saint Thomas; await orders; confirm
TALA FOSIO - Answer telegram sent 28th; go to Curacao for loading; if necessary bunker at Trinidad; acknowledge

A machinist's mate on the Italian tanker ALABRA was notified his presence was required in Venice on September 1st.

The message transmitted by the German Norddeich station, "ACT ACCORDING TO SPECIAL INSTRUCTIONS" as mentioned in yesterday's report has been repeatedly sent, the German station thus making certain that the vessels will receive the message. The only additional vessel not mentioned in yesterday's report as receiving this message is the AMURIS. This message has been followed in almost every case by an official code message, as yet unread, to each vessel.
<table>
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<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>Aug. 66</td>
<td>Japanannounced atomic bomb</td>
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<td>Japanannounced atomic bomb</td>
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On August 6, 1945, the following vessels were ordered to depart to the United States port:

- USS *Navy* from Port Royal
- USS *Navy* from Port Royal
- USS *Navy* from Port Royal
- USS *Navy* from Port Royal
- USS *Navy* from Port Royal
- USS *Navy* from Port Royal

August 6, 1945

For the President's Office

Confidential
**CONFIDENTIAL**

29 August, 1939.

**In Galveston:**
- Italian **TIBURIO**
- Italian **LAURA C**
  
  Aug. 27

**In New Orleans:**
- Italian **IDA**
- Italian **MONTICERO**
  
  Aug. 22

**In Baltimore:**
- Italian **AMSTERDAM**
  
  Aug. 22

**In San Francisco:**
- Italian **LEONE**
- Japanese **TAITO MARU**
- Japanese **DAINI OGURA MARU**
  
  Aug. 25 (Departure cancelled)  
  Aug. 27

The German SS MÜNSTERLAND was reported to be in the vicinity of the Philippine Islands.

The following vessels are due to arrive in United States ports in the near future from foreign ports:

<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>Arrival Date</th>
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<tbody>
<tr>
<td>German</td>
<td>HAVELLAND</td>
<td>Los Angeles</td>
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<tr>
<td>German</td>
<td>FRIESEN</td>
<td>New York</td>
</tr>
<tr>
<td>German</td>
<td>PHEICIA</td>
<td>Houston</td>
</tr>
<tr>
<td>German</td>
<td>ODEWALD</td>
<td>Baltimore</td>
</tr>
<tr>
<td>Japanese</td>
<td>HOLLAND MARU</td>
<td>Seattle</td>
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In addition to the foregoing, there are approximately ten Japanese vessels on which we have current positions.

Y. H. FOLLO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.

- 5 -
August 30, 1939

MEMORANDUM FOR THE PRESIDENT:

I attach hereto report from Coast Guard on shipping matters.

(Signed) John W. Hanes

Acting Secretary

JWH:PY:ce
orig. to White House with confidential memo from C. Guard to Gaston dated 8-30-39
Memorandum to the files:

Conversations of Mr. Hance with Col. Monroe Johnson of the Commerce Department on August 30, 1939 at 9:06 to 9:10 a.m.

Johnson: Hello Hance. Have a bad night.

Hance: Well, just fair. I was up late and got up at 5:30 a.m. - so bad little sleep.

Johnson: Well now, about this situation. Theoretically, I am the man holding on now. I think I should get some word directly.

Hance: You mean from across the street - the boss?

Johnson: Yes, I think so.

Hance: You got the letter of instructions - copy of Attorney General's opinion?

Johnson: Yes - but I wanted something directly. Now the point is that all the -- are cleared up - just sitting tight and Collector waiting on me for specific instructions. Should I ring Watson and tell him?

Hance: I spoke to the President last night at 5 o'clock last night.

Johnson: Yes, I know.

Hance: And told him we were following out his specific instructions. I would either walk over there to see the President or call him and say you just wanted to hear it from his lips that he wants you to hold this ship.

Johnson: Should I put the call through to Watson?

Hance: Just ring White House operator and ask for the President.

Johnson: Will he be there by eleven o'clock?

Hance: Oh yes - be there by ten o'clock I think.

"End"
Memorandum to the files:

Conversation of Mr. Hanes with Col. Monroe Johnson on August 30, 1937 at 3:45 p.m.

Johnson: How are you feeling? Everything going along O.K.?

Hanes: Yes sir.

Johnson: I see where they released the boat.

Hanes: I haven't seen anything. I believe Harry Barning is going on the dock personally at six o'clock and will deliver all clearance papers to all three boats at that time.

Johnson: When did you hear that?

Hanes: That's the last I had on it. Don't know but believe Herbert Gaster had that.

Johnson: Guess the emergency is over then - glad this is over.

Hanes: I think so; however, if I hear anything different, will let you know.

"End"
Today, April 10th.

Dear John,

I will do something on the way home. I hope to get there on time to see you.

In the mail:

- The Prime Minister of Japan's letter
- The letter to the President
- The letter to the Secretary
- The letter to the Secretary of State

I think the President should reply to them on Monday on a formal

I hope you're ok. I want to find out what's going on over there. I'll call you to catch up and tell you what's going on.

I'm not understanding the situation. I want to find out what's going on over there.

I've been underestimating the situation. I want to find out what's going on over there. I'll call you to catch up and tell you what's going on.

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I'm not understanding the situation. I want to find out what's going on over there. I'll call you to catch up and tell you what's going on.
Memorandum to the files:

Conversation of Mr. Hanna with Mr. Basil Harris on August 30, 1939 at 11:14 to 11:16 a.m.

Hanna: I talked to O'Connell and was wondering if everything went along O.K.

Harris: No, they didn't do a damn thing, John.

Hanna: I understood they were going to.

Harris: Understand they put five thousand bags on the Normandie - now they're not going to sail at all. That's the lousiest crowd.

Hanna: Who did you deal with?

Harris: Lemuel - he dislikes me very much because I bumped him a couple of times. I think he is the one who messed things up.

Hanna: I'll find out.

Harris: Harding sailing today.

Hanna: Go yet?

Harris: Will find out - don't think there's time. But don't think they did.

Hanna: If they didn't, we should make a hell of a stink about it.

Harris: I should think so.

Hanna: Don't do anything - find out - call back.

"End"
August 30, 1939.

MEMORANDUM TO THE FILES:

Conversation between Mr. Adolph Berle, Assistant Secretary of State, with Mr. Hanes.
Time 10:50 to 10:52.

Berle: The press will be on our necks in a few minutes about this Thompson con-
versation. Do you have any objection (to our saying?) we understand from
the Treasury that all of the vessels under inspection that wish to sail
are having clearance this afternoon? This is the inquiry that the German
embassy made to the Department last night.

Hanes: That isn't quite the case. You could say it is anticipated that all ins-
pections will be completed this afternoon and clearance granted in time
for the high tide of this afternoon.

Berle: All right. I will say that if you agree. Thank you very much.

1g
August 30, 1939

Honorable J. W. Johnson
Assistant Secretary of Commerce
Washington, D. C.

Sirs:

Permit me to acknowledge receipt, through the Commanding Officer of the Coast Guard at Los Angeles, of your telegram dated August 29th, directing that foreign flag merchant vessels whose governments might become involved in war be thoroughly examined to determine whether or not such vessels are carrying armaments, and if found to be, or suspected of carrying such armaments, clearance be withheld until detailed report is made to your department, and until specific instructions have been issued. In connection therewith may I not respectfully ask that you advise this office concerning the following:

It is commonly reported on this Coast that a number of Japanese vessels have been so constructed that they may be equipped with naval guns. In fact, some of them are referred to as "auxiliary naval cruisers". Up to the present time there has been no suspicion that these vessels had aboard any guns to be mounted. It is the opinion of the office of the Collector of Customs in San Francisco that the presence of what might be called re-enforced gun placements aboard vessels would be sufficient to warrant delaying the clearance of such vessels until report could be received from the Department of Commerce. This idea is questioned by this office. Therefore, it is respectfully requested that you advise whether or not in such cases clearance should be delayed until specific instructions may be obtained from your department.

Information has also come to this office to the effect that British vessels plying between Europe and Great Britain and Pacific Coast ports which touch at Los Angeles first, thence proceed northward to Vancouver, B.C. in the Dominion of Canada, are to be equipped with guns, while in the port of Vancouver. Should this be accomplished, and such vessels on the return trip put in at Los Angeles Harbor, it seems to this office that clearly, clearance should be delayed pending receipt of advices from you.

Another question which has arisen. As you are probably aware, many vessels put in at Los Angeles Harbor for bunkers without entering and without clearing. Is it your desire that vessels putting in at Los Angeles under these conditions shall be searched, and if equipped
with armaments, be detained pending advices? You will understand that in connection with these ships there is no necessity for the entrance or clearance of same.

Another question which is respectfully submitted. In your telegram above referred to it is stated: "there is a possibility that foreign flag merchant vessels whose governments may become involved in war —". In the opinion of this office this clearly includes Japanese vessels. Do you concur in this opinion?

You will understand please that practically all vessels entering Los Angeles Harbor excepting, of course, tankers, are heavily laden with cargo, being caused no doubt by reason of the fact particularly that European vessels touch Los Angeles as the first port of call on the North bound trip and the last port of call on the South bound trip, the ships having taken on added cargo at Seattle, Portland, San Francisco, or other ports at which they may stop in the North Pacific. Also there is an exceedingly limited force of employees available for the examination of the vessels. This latter fact coupled with the fact that the ship is practically loaded full when arriving here either North bound or South bound, makes it almost impossible to give any attention to the cargo, and practically precludes the examination of cargo hatches with any degree of satisfaction. For this reason it is not believed that other than an examination of the manifests can be had with a view to ascertaining the character of cargo aboard such ships. If, however, you have desires that cargo should be examined, please advise and we will make every possible effort to comply with such desires.

In this connection it may be stated that this office is working in very close conjunction with the U. S. Coast Guard Service, and in effecting an arrangement as between the Immigration Service and Customs to aid whenever possible in carrying out this work.

Another question upon which we would like an expression of opinion refers to the so-called Japanese naval tankers. These ships are a part of the Imperial Japanese Navy and are equipped with certain types of guns, and under the appropriate provisions of the Regulations have not been required to enter or clear. What action, if any, is desired to be taken with respect to these vessels? It may be stated that, while previously such ships called at Los Angeles frequently, during the past two or three months only one such vessel has been here.

This communication is being forwarded to you by airmail, and it is respectfully requested, in order that we may carry out your instructions, that response thereto be given by telegraph.

Respectfully,

S/ Wm. Jennings Bryan, Jr.
Collector of Customs
Dear Mr. Eccles:

Thank you for your letter of August 29th, enclosing a copy of your letter to the Attorney General, dated August 29th, and its accompanying memorandum.

I appreciate your cooperation and that of the Board in this matter.

Sincerely yours,

[Signature]

John W. Hanes
Under Secretary of the Treasury

Honorable M. S. Eccles, Chairman,
Federal Reserve System,
Washington, D. C.
Honorable John W. Hanes,
Under Secretary of the Treasury,
Washington, D. C.

Dear Mr. Hanes:

At the request of the Board, I am sending you herewith for your information a copy of a self-explanatory letter of this date addressed to the Attorney General, together with a copy of a confidential memorandum enclosed therewith containing a brief statement of means available through the Federal Reserve System to protect the public interest in the event of a European war.

Very truly yours,

M. S. Eccles,
Chairman.

Enclosures 2
The Honorable,
The Attorney General,
Washington, D. C.

Sir:

In accordance with the request made on your behalf in a telephone conversation yesterday between Mr. Townsend of your Department and Mr. Nyatt, the Board's General Counsel, there is enclosed for your information and for the use of the President a concise statement of the more important means available through the Board of Governors of the Federal Reserve System, the Federal Open Market Committee and the Federal Reserve banks to protect the public interest in the event of armed conflict abroad.

The statements regarding the action which the Federal Open Market Committee and its Executive Committee are prepared to take and regarding the fact that the Federal Reserve banks are prepared at this time to make advances to member and nonmember banks on Government securities at par are strictly confidential and should not be released unless and until an announcement with reference thereto is made by the Board of Governors.

It is hoped that this will give you the information which you desire.

Very truly yours,

M. E. Eccles,
Chairman.

Enclosure

(Taken from the chairman's notes)

(Copy for Mr. Hansen)
1. Anticipating the possibility that developments abroad might result in serious disturbance to our security markets, the Federal Open Market Committee has given its executive committee ample power to buy and sell Government securities through the Federal Reserve Bank of New York, and the executive committee is in constant touch with the situation.

2. Federal Reserve banks have adequate resources to provide all currency and credit which member banks may need to meet public demands. They are prepared to make advances to member banks on any sound assets.

3. If disturbed conditions abroad make it advisable, the Board of Governors is prepared to announce that Federal Reserve banks stand ready at the present time to make advances to member and nonmember banks on United States Government obligations at par at the rates then prevailing for member banks.

4. Federal Reserve banks may make loans to individuals, partnerships and corporations on direct obligations of the Government; make loans to furnish working capital to established businesses; and discount eligible commercial paper for any individual, partnership or corporation which is unable to secure adequate credit accommodations.

5. Federal Reserve banks may buy and sell, at home or abroad, eligible bankers’ acceptances and bills of exchange.

6. Discount rates of Federal Reserve banks (which are now the lowest on record) may be lowered or raised, as conditions require.

7. Federal Reserve authorities are charged with the responsibility of discouraging undue use of bank credit for speculative purposes; and the Board of Governors can ease conditions in the stock market or discourage excessive speculation by adjusting margin requirements in connection with loans on securities by banks, brokers or dealers.

8. Through their nation-wide organization with offices located in 37 cities, Federal Reserve banks act as depositaries, fiscal agents and custodians for the Government; they facilitate issuance and retirement of Government obligations and transfer and disbursement of Government funds; they collect information relating to banking and other financial developments; they have in previous emergencies administered foreign exchange regulations and are in position to do so at any time; and they furnish ready means of quickly reaching all banking institutions.

9. Federal Reserve banks, subject to the special supervision of the Board of Governors, have established correspondent relationships with most foreign central banks and are in position to serve the Government in international financial transactions.

These are the more important means which would be useful to ease the initial effects of the shock of a European war. The System’s power to deal with a harmful speculative or inflationary development, such as experience has indicated might occur later, are wholly inadequate.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: August 30, 1939, 8 p.m.
NO.: 1672
FOR THE TREASURY.

At half-past six we visited Governor Fournier at the Bank of France. We saw, while we were waiting, eleven vans being loaded with gold for removal out of Paris; several of the vans had been requisitioned from the Samaritaine department stores. When we saw the Governor we jokingly mentioned this, and he replied with a smile and a shrug that they had to take their precautions. The trucks were well protected by gardes mobiles who had full equipment, and even had gas masks with them.

The Governor confirmed what we had been told by Reynaud and Rueff - reference: telegrams 1609 of August 26 and 1666 of August 30. He said that at the moment they are positively not envisaging any measures or restrictions on operations in foreign exchange, nor the requisition of French owned foreign securities nor balances or similar steps.

END SECTION ONE.
PARAPHRASE SECTIONS THREE AND FOUR. TELEGRAM NO. 1672 OF AUGUST 30, 1939, FROM THE AMERICAN EMBASSY, PARIS

He said that it was not possible to operate on more than a day to day or even hour to hour basis, in view of the fact that markets these days are completely dominated by the rapidly moving political scene and normal rules are quite inapplicable. Therefore it was not possible for him to express any opinion as to what should be a "sound" level for the pound, he could not say whether 4.20 was too low or 4.50 too high a level. It is merely his desire to keep the franc at a proper price ratio without in any way speculating to take advantage of the British Government.

The question of plans for government financing in case of war was brought up, and we asked what plans were being considered; he replied that to make any definite plans was very difficult. During the last few days withdrawals of bank deposits had been of very considerable size - and his peace of mind was obviously not being helped thereby - but such withdrawals were less than they had been in September of last year, and this year were not in unexpected proportion; there had in fact been a considerable diminishing in amount. He is hopeful that, if this withdrawal trend ceases, resumption of subscriptions to armament bonds on a large scale will ensue and that in the early days the government will be able to carry on through purchases of three months treasury notes plus higher taxes. He added with a smile that he hoped they could then count on help from
from the United States later on.

It seemed to us that he was his usual calm self, but the strain of the past week showed on him; we asked him whether he was still as optimistic as he had been when we saw him on the twenty-second of August at the (omission). He said that his optimism has been somewhat diminished by recent events, particularly since the people with whom he is in contact seem to be anything but optimistic about the situation.

END OF MESSAGE.

BULLITT.

EA:LMW
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: August 30, 1939, 4 p.m.
NO.: 1666
FOR THE TREASURY.
We have just been informed by Reynaud that he does not contemplate taking any extraordinary measures, at least not for the moment. Gold in the amount of 122 million francs was gained by France yesterday, despite the fact the situation was critical.

According to Reynaud there had been very large withdrawals from the government savings banks, but these withdrawals had been expected since every man who was mobilized drew out a certain amount of money to give to members of his family. There had already been a decrease in the volume of these withdrawals from the Caisse d'Espargne. He expected that there would be a further decrease, as French families already had enough money on hand to meet their September bills as a result of these withdrawals.

Reynaud made the strictly confidential comment that he thought the British were handling the matter of the pound as stupidly as they possibly could—they were doing all they could to decrease confidence in the pound. In his opinion Sir John Simon was proving himself cowardly as well as ignorant. END SECTIONS ONE AND TWO.
The exchange market was again erratic today and the turnover small most traders remaining in the side lines in the absence of any concrete political developments. The fund gained a small amount of sterling this morning and is losing a little this afternoon the rate fluctuating from 175.18 to 175.28.
Secretary of State,
Washington.

1666, August 30, 4 p. m. (SECTION THREE)

The dollar pound cross rate ranged from 432 to 442 and the franc dollar rate from 3962 to 4006. Both the Swiss franc and belga were strong against the dollar improving about 1%. The florin remained the same at 187. The securities market was likewise inactive and erratic. The 3% rente issue was down 1% and the others about unchanged on very small trading. The decision of the Norwegian and Danish authorities to permit their currencies to follow the dollar along with the Swedish crown occasioned no surprise to the market here. The Yugoslav dinar is likewise now being based on the dollar. Telephone communication between banks with London and New York was permitted this morning with restrictions, however, on discussion of political news.

We are seeing Fournier this evening.

(END OF MESSAGE)

DDM

GRAY
Paris
Dated August 30, 1939
Rec'd 12:55 p. m.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Legation, Athens, Greece
DATE: August 30, 1939, 3 p.m.
NO.: 151

Confirmation has been received of lifting of foreign exchange embargo effective as of today, and covering suspended transactions. Thus conditions as they were prior to August 25 were restored, with the exception that they prohibit opening letters of credit until further notice, except for essential foodstuffs, government supplies, and fuels.

The exportation of foodstuffs and fuels is prohibited by a government order of August 29 effective today. This order includes transit goods in customs warehouses and free zones of Salonika and Piraeus. However, the Legation is informed by the Ministry of National Economy that this does not apply to foodstuffs destined to free exchange countries, and of which Greece has an exportable surplus, including fresh fruits, olives, figs, olive oil, peppers, currants, and raisins.

MACVEAGH

EA: LWW
PLAIN

LONDON

Dated August 30, 1939
Rec'd 1:35 p.m.

Secretary of State,
Washington.

1323, August 30, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The City has been hopeful practically all day, not because it had or has any reliable information about the Anglo-German interchanges but on the general supposition that delay means hesitation by Hitler, indicating that the forces in Germany making for peace were gaining ground and consequently the leverage of Great Britain and France was increasing. However, a report just before 5 p.m. that the Poles had ordered a general mobilization came as a shock and caused a reaction to set in since it emphasized the difficulties inherent in the situation even though negotiations be agreed to.

The London Stock Exchange has been firm and the amount of business has been not inconsiderable. Both equities and British Government securities have risen decidedly, the latter being well above the minimum prices, war loan for example, closing at 90 3/4, 1 3/4 above the minimum.
The dollar opened at 4.37
½ bid and gradually but erratically moved to 4.42 with considerable offerings coming from New York. When the Polish mobilization report appeared the rate moved back to around 4.39.

150 bars were sold at gold fixing at 158s. 6d. which was only a 2d. discount. After fixing, gold was offered as low as 157s., with but few dealings.

A summary of the behavior since the break in sterling of the currencies which have been tied to the pound in the past may be of interest. The Danish currency, though quotations are nominal, has remained in line with sterling as has also the Latvian and Estonian currencies. Finland, Norway and Sweden, however, have allowed their currencies to move with the dollar rather than the pound. The Helsingfors rate which was about 2.27 on August 23 being quoted nominally at 2.10 to 2.15 and having touched 208.9 on August 28. Oslo quotations which stood at about 19.90 on August 23 were about 19 yesterday and are quoted nominally today at 19.35. The Swedish krona which was about 19.40 on August 23 is now quoted at about 18.50 having touched 17½ on August 28. The Portuguese escudo has dropped from 110 to 109½, while the currencies of such other countries in the sterling area as Japan, Egypt and Greece have remained in line with sterling. The Argentine free exchange, however,
-3- #1323, August 30, 6 p.m., from London

however, which stood at 20.10 to 20.14 on August 23 was quoted yesterday at 18.70 to 18.90.

An exchange telegraph message from Copenhagen indicates that the agricultural interests in that country are urging the Government not to allow the Danish currency to appreciate in terms of sterling. The policy of Sweden was indicated in my No. 1303 of August 29, 1 p.m.

ALC

KENNEDY

Regraded Unclassified
Secretary of State
Washington

1322, August 30, 6 p.m.
FOR TREASURY FROM BUTTERWORTH.

British Treasury confirms the information contained in the last paragraph of my 1310, August 29, 6 p.m., and states that sales of securities by British residents to non-residents will be permitted, provided the foreign exchange is turned over to the British monetary authorities in return for sterling at the going rate. The British Treasury is, of course, aware that there is nothing to prevent the recipient of such sterling from converting it back into say dollars and having those dollars placed in another name, but it is at the present time content to rely on the "general trustworthiness and patriotism of the man-in-the-street" not to make use of such loopholes. Furthermore, the Treasury points out that to close such loopholes would necessitate a complete exchange control system. The Bank of England has been besieged with requests for rulings covering unanticipated contingencies. It will obviously take a few days for the mechanism to operate reasonably effectively but in the meantime the market...
market in American securities in London has revived and considerable business is being done, particularly where both the seller and buyer are British residents.

KENNEDY

ALC
August 31, 1939.

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

My dear Mr. Secretary:

I want to thank you for making available to me during the course of the Annenberg investigation the services of your Mr. Samuel Klaus. As you know, he was appointed Special Assistant to me at the time this investigation commenced and he has rendered splendid service during its entire progress. In fact, his ingenuity, resourcefulness and never failing willingness to work contributed materially in the results thus far achieved. I trust you will permit him to remain with me until after the trial of these cases.

I want you to know how deeply I appreciate the service Mr. Klaus has rendered.

Sincerely and respectfully yours,

WILLIAM J. CAMPBELL
UNITED STATES ATTORNEY
To: Mr. Hanes
From: Mr. Gaston

If the State Department has no objection we propose to send to all Collectors of Customs and to District Commanders of the Coast Guard telegrams, which have already been prepared, instructing them to familiarize themselves with Article 178 of the Customs Regulations, which has reference to observance of neutrality and exportation of arms and ammunitions and also to familiarize themselves with the regulations with respect to munitions control, issued by the State Department.

It seems to us desirable that the Collectors and District officers of the Coast Guard should familiarize themselves thoroughly with these regulations in advance of the outbreak of war. The instructions can be sent in a confidential manner with instructions against revealing them.

Mr. Hanes wrote on a carbon copy:

Took up with Feis - he says Secretary State says O. K. - his suggestion is that only the most important posts be sent at this time.

See memorandum to the files for above conversation between Feis of State Department and Under Secretary Hanes - 5-1-39 - 3:25 - 3:30 A.M.
Conversation between Undersecretary of the Treasury Ramee and Governor Harrison of the New York Federal Reserve - August 31, 1939 - 8:20-8:40 A.M.

JWH: I was wondering if you have anything on your mind.

Harrison: I think the news is not as good as yesterday in spite of the fact that the lapse of time means more hope. I am still an optimist - maybe God will step in and help. Have you talked to Marriner?

JWH: No.

Harrison: Well, Marriner called last night with his whole Board listening, and advised that we should support the market if anything happened. I think that he and I may differ because you can't go in until you find out where your level is. Our bids were over the market. They did not expect me to put in bids tomorrow morning at the opening. At some point we ought to be willing to let other investors get in.

JWH: Maybe Marriner talked to the White House yesterday.

Harrison: I am positive that happened. Whenever things go badly there is always a feeling that we hold back. We are doing a better job by holding back. You think it over.

JWH: What do you think Marriner told the President?

Harrison: I don't know, but he gave me a pep talk.

JWH: The President has asked me to come over today. Eccles is critical of our efforts.

Harrison: While I was talking to Eccles about this thing I asked him if he thought we should have bought bonds last Thursday. Eccles said, "I certainly do", - then I said "now wait a minute", - then he retracted. There hasn't been a variation in the market of more than a point and a half. I think the market has behaved remarkably. We have got the banks in an attitude of complete complacency regarding their portfolios. I then told Marriner to read the minutes of the discussion we held some months ago in the Secretary's office. I said that we should go into this thing slowly. If we open up tomorrow how vigorous should we be? There is no point in buying over the level for that day.
JWH: I believe in keeping the markets orderly, and I don't want to keep private buyers out of the market.

Harrison: I don't think the thing will be so bad.

JWH: I think I'll call Eccles and tell him that I've had a chat with you.

Harrison: The banks are buying bonds and not unloading. The market is acting OK. I will go in and buy aggressively if war comes, but I don't want to bail out the big banks unless it breaks the market.

JWH: OK - I'll call Eccles and see what's on his mind.

Harrison: Ransom called me and said that everyone is back of me - I think the results speak for themselves.
MEMORANDUM FOR
THE ACTING SECRETARY OF THE TREASURY

I heartily approve using this silver bullion to meet coinage needs. Coin and put out into circulation all the country can stand -- up to the saturation point!

F. D. R.
My dear Mr. President:

On November 11, 1935 you indicated your approval of the use for subsidiary coinage, to the extent necessary, of silver bullion acquired pursuant to section 7 of the Silver Purchase Act of 1934, and which is not held as security for silver certificates. (See attached copy of letter dated November 8, 1935 to you.)

The stocks of silver bullion available for subsidiary coinage (including the silver allocated to that purpose pursuant to your approval above mentioned) are running low and should be replenished.

It seems to the Treasury now, as it did in November 1935, that it would be preferable to use for subsidiary silver coinage bullion now held by the Treasury rather than to purchase for this purpose silver in the open market by means of advertisement.

The Treasury is holding a large stock of silver bullion which was received pursuant to the Proclamation by the President of December 21, 1933, and the proclamations modifying it, which has not been coined and which is not held as security for silver certificates. Such silver may, subject to your approval, be used for subsidiary coinage.

Accordingly, it is intended, with your approval, to authorize the Director of the Mint to use, to the extent necessary, silver bullion received pursuant to the Proclamation by the President of December 21, 1933, and the proclamations modifying it, which has not been coined and which is not held as security for silver certificates. If the foregoing meets with your approval it will be appreciated if you will so indicate by signing the notation at the foot hereof.

Faithfully yours,

John W. Davis
Acting Secretary of the Treasury.

Approved:

[Signature]
The White House.
August 31, 1939
4:13 P.M.

To: Hanes and Bell
From: Secretary Morgenthau

The following from Coast Guard - cable -

What have you in mind regarding to next Tuesday financing?
Have you made any arrangements as to whom I am to see in Washington in regard to financing? What is deadline for announcing to Press the terms? Where will Hanes, Gaston, Bell, Lochhead, Haas and White be Sunday and Monday?

cc to Bell - 4:18 P.M.
August 31, 1939

RADIO MESSAGE - CODE

FROM ACTING SECRETARY HANES TO SECRETARY OF THE TREASURY
ABOARD COAST GUARD CUTTER CAMPBELL:

All will be available on Sunday and Monday except White who will not arrive here until Wednesday. Have made no definite plans for Tuesday financing and have made no arrangements for you to see any one from New York in Washington on Tuesday. Have planned to go ahead with Open Market Committee meeting tomorrow after which I intend communicating with you. If after receiving this report and recommendation it is necessary for you to confer with someone from New York I can make arrangements on Saturday. If situation grows worse between now and Tuesday you may deem it advisable to abandon plans for September financing. We could delay final decision until Wednesday, announcing Friday the eighth. This would only leave two days if you brought in December notes, assuming you would not want to let exchange offering remain open over weekend.
August 31, 1937
1:45 P.M.
(Daylight Saving Time)

Mr. Hanes

W. H. Hadley

Government Bond Market

Today the market opened slightly easier, about unchanged from late trading last night, but with losses of about 1/4 point from 3:00 o'clock. During the first hour the market moved about 1/8 point lower and after recovering slightly turned easier again on news of English mobilization. At 1:30 o'clock the losses were 2/32nds to 14/32nds from yesterday's 3:00 o'clock closing.

Since last Friday the market has moved through a range of about 1 1/4 points and stands at the present time about 1 point above the low reached last Thursday. Activity has been very light and during the morning there was a small amount of buying reported. Dealers' Treasury bond holdings continue at minimum levels but holdings of short term issues have increased considerably.

Purchases in the Market by Federal Reserve and Treasury:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 28</td>
<td>$2,867,000</td>
<td>Bonds</td>
</tr>
<tr>
<td></td>
<td>3,000,000</td>
<td>Notes</td>
</tr>
<tr>
<td>August 31</td>
<td>$1,000,000</td>
<td>Bonds (To 2:00 P.M.)</td>
</tr>
</tbody>
</table>

(Handwritten note: This sent to JWH)

[Signature]

(Handwritten note: White House)

(Handwritten note: Assistant Secretary)

Regraded Unclassified
CONFIDENTIAL

MEMORANDUM FOR ASSISTANT SECRETARY GASTON

31 August, 1939.

Information received from the Commander, New York District, Coast Guard, indicates the following:

German SS BREMEN granted formal clearance late yesterday afternoon, and sailed from New York about 6:00 p.m., same day. At 6:30 p.m. she passed Quarantine Station in New York Harbor, and at 7:51 p.m. she passed Ambrose Lightvessel. At this point she settled an course 115° true, which should take her about 60 miles south of Montauk Lightvessel, on route probably to Europe. Except for her running lights, the BREMEN ran dark. She carried no passengers or cargo.

The German SS SIMON VON ULYSSE which was due in Boston on August 29th has not arrived and no information has been received of her whereabouts.

Italian vessels receiving orders from the Italian station at Coltane during the last twenty-four hours are as follows:

ITALIA
- Continues at maximum speed to Laspezia; confirm

TITANIA
- Proceed slowly; await our orders; confirm

TOSCANA
- Shipowner (thinks) bunkering at Temeriffe difficult. We wish to continue direct to Messina. Authorize move if believe necessary and opportunity - Your fuel sufficient to reach Messina. Telegraph quickly

EMANUELE C
- Your owner wishes you to proceed to Temeriffe and await further disposition. Confirm date

The Italian vessel LIVREA cleared from New York on August 30th for Baltimore.

The following vessels were listed as being in United States ports on August 30th:

In Boston:
- Italian MANGIOIA
  Aug. 27
<table>
<thead>
<tr>
<th>Location</th>
<th>Name</th>
<th>Arrival</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Norfolk</td>
<td>Irish</td>
<td>Aug. 30</td>
</tr>
<tr>
<td>In New York</td>
<td>Italian</td>
<td>Aug. 24</td>
</tr>
<tr>
<td>In Galveston</td>
<td>Italian</td>
<td>Aug. 26</td>
</tr>
<tr>
<td>In Houston</td>
<td>German</td>
<td>Aug. 27</td>
</tr>
<tr>
<td>In Baltimore</td>
<td>Italian</td>
<td>Aug. 29</td>
</tr>
<tr>
<td>In Everett</td>
<td>German</td>
<td>Aug. 29</td>
</tr>
<tr>
<td>In San Francis</td>
<td>Italian</td>
<td>Aug. 29</td>
</tr>
<tr>
<td>In New Orleans</td>
<td>Italian</td>
<td>Aug. 29</td>
</tr>
</tbody>
</table>

The following vessels are due to arrive in United States ports in the near future from foreign ports:

<table>
<thead>
<tr>
<th>German</th>
<th>Name</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Haviland</td>
<td>Los Angeles</td>
</tr>
<tr>
<td></td>
<td>Prussia</td>
<td>New York</td>
</tr>
<tr>
<td></td>
<td>Orleans</td>
<td>Baltimore</td>
</tr>
<tr>
<td></td>
<td>Peking</td>
<td>Houston</td>
</tr>
</tbody>
</table>

F. E. Penfold,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.
MEMORANDUM TO THE FILES:

August 31, 1935.

Conversations between Gordon Rentschler, President of National City Bank, and Mr. Hanes.
Time 2:25 to 2:36.

Rentschler: You got any news?

Hanes: I don't know as there is anything that hasn't been on the ticker that we know.

Rentschler: That's about our position, too. Our fellows there still say no war.

Hanes: I have been saying that right along, but they got out a little bit beyond my optimism.

Rentschler: I am calling you for this reason, John. We asked the Federal Reserve this morning a question which will eventually be referred to somebody in the Treasury(?). It will come down through Noyes of the Federal. We have for years been doing business with the Royal Treasury of Siam. The word that will come down to you is THIS. At the present time they carry $5, $10, $12 million dollars. About three months ago they transferred that to sterling and just before the drop the other day they brought it back into dollars at $1.65, or whatever the rate was at that time. They want—without paying interest on their money. Of course we won't do that. They say, "Sell, now, then, why don't we have this to buy gold and put it in the Federal and have it earmarked for our account." We say, "Entirely agreeable to us," but they say, "We want to borrow it from time to time." We say, "You keep cash here or we shall try to arrange loans against your gold." Now, the Treasury's policy, as I understand it, has been probably without exception, there may be only one exception in the South American commodities situation, not to permit any bank or any other individual other than a foreign treasury or a reserve bank to have interest whatsoever in gold here. We are wondering whether it is not practicable and possible for us to have the gold, let it belong to the Treasury of Siam in the Federal, but let Siam give a letter to the Federal authorizing them to sell gold and remit proceeds to us if we can show that they have not paid their obligations in accordance with the trust. The reason I am interested in trying to work this out is that we are going to have more and more of this sort of stuff come in from other banks, too. —Doing business with these small countries, and of course a good deal of this will come back from London. In our capacity now as a more important factor as a world money center, I would like to facilitate doing for these people what they want done. I want to be in a position to indicate clearly to them that we don't care about their deposits because I don't think it is good, sound business for us to have these deposits kicking around and have some of these small banks offering to pay interest on them, because you and I know that is how we got into trouble some ten years ago. It is perfectly sound and good
for them to own gold, and our willingness is just an indication of the strength of this market at the present time. But still I want to be in a position to lend them one or two million dollars. They reimbursed - pay off against. I don't know who the Federal shows that up to in the Treasury, but when it comes in, give it a little study as an example of other situations that might develop, and we ought to make this now a real sound international money market where people could not only come but be welcome.

Hanes: I will send for it.

Rentschler: I think it means enough to the general situation to make it worthwhile watching.

Hanes: You will hear from me right back as soon as I get it.

Rentschler: You are giving us to darn much excess reserve.

Hanes: I would rather have it that way, though, than the other way.

Rentschler: Deposits are at an all-time peak.

Hanes: Are you exceptional or are all the banks the same way?

Rentschler: Guaranty, Bankers Trust, and ourselves are making the roundup together, but Chase's percentage is not as good, but in dollars about the same as ours. The rest of them will probably run (or) about 10 percent beyond what we are doing.

Hanes: I just saw the President and told him you had been very helpful to us working in the Government bond market.

Rentschler: We tried to nibble at this corporate market unsuccessfully. Yesterday we were ready to buy, that is the Consolidated Oil. They were at 109%. They dropped down to 102. We tried to buy at 102 and we were offered one bond. Prices don't seem much, and the good stuff is just not coming in. Shells. There isn't so much of that standing around. We tried 25 issues in the last couple of days just to get the feel, and they are pretty well clean. The undertone of this market is excellent. Of course, we are keeping a few bids in there on some of this corporate. No use for them to get too far out of line. Walter Cunnings is sitting absolutely tight. I'm sure he won't mind my quoting him. I have talked to fellows like Walter Maloney(?), Detroit. I think that is a good healthy way to have it. Of course, we won't try to take anything. If we just gently back away but he willing to buy a few things and keep the hose out, we will be rather surprised to see how soon we can get it on an even keel even if there is a crackup over there.
MEMORANDUM TO THE FILES:

Conversation between Mr. William Martin, President of the Stock Exchange, and Mr. Hanse. Time 11:47 to 11:50.

Hanse: I was just checking around. I haven't anything on my mind other than this crisis. And we just got word over the ticker that the stock exchange in London is going to be closed tomorrow. Did you give any thought to your own situation? Has it affected your thinking?

Martin: No, it hasn't. I watched it very carefully, the reaction, and the community is taking it very quietly, and I don't anticipate any trouble as a result of it.

Hanse: I was going over to see the President. I know he would ask me about it. You haven't given any thought to following them, of course?

Martin: No, we would rather believe, and that is the general impression here in the community, that their move was largely a matter of convenience rather than of necessity. As long as that impression holds it isn't going to have any repercussion on the market.

Hanse: Your markets have been very steady, haven't they?

Martin: Very steady and quiet, and under the market there looks like when the break does come, if it does, it looks like there will be some - buying. We are worried principally about the first impact. Outside of that we haven't any great worries. We are open on Saturday and so are the banks. The banks will be open, too, I understand, this weekend. I haven't got anything to pass on to the President except for the - I told Henderson that in the event of a serious breakdown and that we might like to ask them for a moratorium on officers' and directors' trade. During that stabilizing period we think that would be very helpful. I don't know how you feel on that.

Hanse: If at any time you want to get me, I am always here, and any message you want to get over, I will do what I can to help you.

1g

original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Admiral Anderson, Chief of Naval Intelligence, and Mr. Hanes.
Time 11:02 to 11:06.

Anderson: Mr. Hanes, I had the pleasure of calling on Mr. Morgenthau, and I regret that I didn't call on you at the same time. I have some information here which Secretary Edison desired me to pass on to you. This is a message which we received from the District Intelligence Officer in New York. Information has been received from New York to the effect that a report has been received from a source believed reliable that the London stock exchange will close tomorrow indefinitely. Reason is evacuation of women and children from ten points from the British Isles.

Hanes: We have only got a rumor, that is all. It was on the ticker here this morning that the stock exchange was going to close, and the reason assigned as you give.

Anderson: How good this is I don't know, but my man in New York thinks his source is reliable. Another message from same source that England is completing mobilization of both army and navy. That is in the press flashes. We have a dispatch here from my attaché in London: Eight or ten German submarines are at sea and others are departing.

Hanes: I am very grateful to you for that information. That last one doesn't look good, does it?

Anderson: We are all guessing as to what this particular German poker player is going to do, but my optimism is diminishing some. I considered when the Poles began to call additional men that that was rather an ominous indication. It was to me. However, no one knows.

Hanes: We'll keep a stiff upper lip.

Original and 2 carbons made.
MEMORANDUM TO THE FILES:

Conversation between Dr. Feis of the State Department and Mr. Hanes. Time 10:37.

Feis: Flash unconfirmed? British have virtually complete mobilization. Poland wanted to mobilize last night, were persuaded not to. Ought not to be provocative. They say that the German demands they reject 40 times over as pending Polish — Our best guess that —

Hanes: His last minute move? Well, it doesn’t look good(?).

Feis: If you get further worried about this mobilization will you let me know? Will you please?

Original and 2 carbons.
MEMORANDUM TO THE FILES:

Conversation between Governor Harrison and Mr. Hanes. Time 9:52 to 9:54.

Harrison: I want to straighten you out. Checking up my notes, I find that the (statement?) that Eccles made about the, our Thursday business, which he immediately retracted, was made day before yesterday, (before he?) saw the other gentleman. Hanson said after he made that statement Eccles took it back and practically agreed that the job had been done in good shape. Hanson thinks without any question that this matter wasn't even discussed with the President. He (I?) thought you might be worried.

Hanes: I am glad you did, because that may not be what he wants me for.

Harrison: Hanson is confident he(?) didn't make any criticism and he didn't think he made any - about it. There have been no offerings made to us at all, but having all these things in mind, I told House to look around the market and see if there was anything pressing to account for - . There was a block of 200,000 which he took up. Since then the market stayed steady and quiet. - I just wanted to let you know that.

1g

Original and 2 carbons made.
MEMORANDUM TO THE FILES

Conversation between Dr. Feis of the State Department and Mr. Hanes. Time 9:42.

Feis: That letter of yours about that fellow. Has just started a new unit to handle such things, and I shot it right down to the head of it, and he will see what he can do. Those are pouring in.

Hanes: I was thinking more about our market in Government bonds than anything else. I felt a little jittery myself. The market is just holding steady, about a thirty-second off.

Feis: I have been surprised at the amount of steadiness it's shown. How is the Government bond market moved over the last few weeks?

Hanes: It is three points below the high for all times (June or July, somewhere last Spring), and five points above the prices reached in the Munich crisis. Whole points. They have gone down very gradually. That three points below the high is five points above your average for Munich. There hasn't been any great wave of liquidation or panicky selling. I wondered if you had anything on tap.

Feis: You will have to give me another hour. Our cable service upstairs is on its nose. And it will be another hour or shorter.

Hanes: When you get time, you call me, and I won't bother you.

Feis: I was going to call you anyway and ask you if you would eat with me tonight.

Hanes: I would like for you to come and eat with me. I have a friend from North Carolina. Good friend, I would like to have you meet him. Quarter of eight.

Feis: I will call you back within an hour.
August 31, 1939

MEMORANDUM TO THE FILES:

Conversation between Mr. Hanes of the Federal Reserve Board and Mr. Hanes.
Time 9:24 to 9:30.

Ranson: I have nothing. I just wanted to see if you had anything.

Hanes: I got Marriner, and had a talk with him. I felt a little bit more nervous this morning than yesterday. I didn't think the news looked very good.

Ranson: I think we are all thinking alike.

Hanes: It seems so. I got the impression from Marriner that perhaps he thought we were not vigorous enough in purchasing the bonds last week.

Ranson: Marriner did make the remark that he thought we might have bought more vigorously last Thursday, so I had a long talk with him and reviewed the whole situation. He made the unqualified statement that he couldn't say that the action last week was — undoubtedly there was some criticism around here and that it might get itself back again to rather high places, and I didn't want you to be at all positive in your statements about that unless that is the way you felt, and he said it wasn't. He seemed to me to say almost exactly what you had said to me, that you said at a Cabinet meeting last week. As a matter of fact, he was pretty well advised during the whole progress of the situation last week. I think his thinking at the moment is more concerned with what would be the conduct of the management of the portfolio if there is a war, and that, I think, is an awfully difficult thing to put into words. I have my own ideas, and, listening to a conversation between George and Marriner, I was satisfied that there was no fundamental disagreement between them as to the policy. — Marriner did feel, and I did too, as I said yesterday, that we ought to have some bids stuck into that market somewhere along the line. We ought not(?) to just abandon it — some purchases are made. Of course, the execution of policy in a market operation of that kind is a very difficult matter. You can't say positively what should be done, but if you understand what your point of view is, we ought not to have any difficulty with it. So I have been with Marriner almost continuously since he got back and I feel absolutely confident that being critical, he (?) would be quite otherwise. If you get any differing feeling, you give us a ring, will you? We are watching it very closely and we want to act harmoniously if we can. Couldn't get State Department yet. Earle suggested that I call him, and they didn't have anything, some general feeling of pessimism. I haven't heard anything this morning. He didn't leave until some time after 1 o'clock, so I thought that was probably as late as we had anything. In the absence of developments — I hope very much to be able to get away myself tonight and set up to Hot Springs, Virginia — If I do get away, I will be calling in tomorrow, and I would like to have the call put onto your phone through the Fed., but I don't talk as freely over the phones with as much distance between them as that. I can get back from there in about two hours if necessary. I have simply got to get the family reorganized here.
CONVERSATION BETWEEN MR. JEROME FRANK AND MR. HANES. TIME 9:30 TO 9:35.

Frank: I am a little disturbed at the item in the paper that the British have modified their ruling on selling American securities.

Hanes: They modified it to the extent that they have bought British exchange with the proceeds (?) they would allow them to sell.

Frank: (Reading) Permission, however, must first be obtained from the Treasury - the Treasury will grant permission only in cases where a broker's claim that an alteration of price has unduly - his margin is upheld. - If there is a drop in the market, then they will be on the margin and they can sell. Tribune. It is column 2 in my copy of the financial page. Its heading is "Governments rise sharply on market." Page 29, second column from the left, third paragraph.

Hanes: (Reading) Commissions sell -

Frank: Now drop down two more paragraphs; you will find it stated again, item 1.

Hanes: That doesn't change it a little bit. It says in effect, if the fellow is squeezed in on margin he can sell.

Frank: Are you still conducting negotiations with them?

Hanes: That goes through the State Department, but we have asked them. You know we sent a cable after that meeting with Leon Henderson. We sent a cable to Butterworth to pursue this discussion with the bank over there as to any changes and keep us posted. We haven't been advised of any change in that. This has a London date line on it. It was in last night's paper. Let me check up on it through the State Department, and if we haven't a cable I think it would be a good plan to send a cable through to Butterworth. - First of all I will get the cables and see what the details are and if we haven't got then I will.

original and 2 cables made.
Memorandum to the files

Conversation of Mr. Hanes with Dr. Herbert Feis of State Department on August 31, 1939 at 11:22 to 11:25 a.m.

Feis: Hello, John.
Hanes: Hello, Herbert.
Feis: You got direct word I believe - report from Anderson?
Hanes: Yes.
Feis: I suppose we all knew for a long time this would happen - talked about last April.
Hanes: Yes, in event of war - they said last April - would do it. I assume a cable will come in sometime today. Report stated closed indefinitely, although we don't know what that means. Might mean a day or week, etc. Perhaps the cable will give the details.
Feis: More word from Butterworth today. Did you hear about the submarines?
Hanes: It certainly doesn't look at all well.
Feis: Those submarines in the Channel will be watched by the fleet like hawks. How about your securities markets - anything for Hull?
Hanes: Rather quiet. For your information, up to eleven o'clock this morning, Federal Reserve bought seven hundred million bonds - which is not much - going very well.
Feis: You know, the American people don't seem to think that war is certain and are not taking it too seriously.
Hanes: Encouraging up to moment - market fallen slightly all through the list.
Feis: You're still speaking of government bonds?
Hanes: Stock
Feis: Yes, market shows some weakness but there is no volume. Right now volume I think is more important than price. Seems to be no pressure or haste. People Herbert, remember the last time. First shock it went off - then on up for the next five years. After that is when it would be trying.
Feis: I'm glad to hear you say that John. Few days ago I sort of went out on a limb over here - saying the same thing.
Hanes: I have a call in to Bill Martin now.
Feis: Believe most Americans have concluded that war or no war, the prices are worth what they are now.
Hence: They've had long enough to put their house in order, and there should be no reason for panicky selling in any event.

Vois: Okay - won't hold you on the phone any longer - if I have any sensational news - will call you again.

Hence: In any event, if I don't hear from you before, will see you tonight.

"End"
Memorandum to the files:

Conversation of Mr. Banes with Col. Monroe Johnson of the Commerce Department on August 30, 1939 at 9:20 a.m.

Johnson: I just talked to Watson - he said the President was handling that matter through you and, I understand that I told him, but in theory matter up to me and I wanted some direct communication from him. He said he would talk to the President, but it was being handled through you. Will you give me a note on it?

Banes: Yes. I expect to step over there in a few minutes and will talk to him.

Johnson: You will? Thanks.

*End*
Helsinki, August 31, 1939.

Dear Mr. Morgenthau:

In accordance with your request when you left Helsinki, I am pleased to enclose a list of the guests at the dinner given in your honor on August 20 and at the luncheon on the following day.

Very truly yours,

Enclosures:

Two lists.

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury,
Washington.
DINNER
August 20, 1939.
at Esplanadgatan 6, official residence of
the Minister of Foreign Affairs

Mr. Väinö Tanner, Minister of Finance (host)
Hon. Henry Morgenthau, Jr.
Prime Minister A. K. Cajander
Mr. Eljas Erkko, Minister of Foreign Affairs
Mr. Axel Solitander, Managing Director of Central
Association of Finnish Woodworking Industries
Mr. Kisto Ryti, Governor of the Bank of Finland
Mr. Reiner von Fieandt, Managing Director of
Nordiska Föreningsbanken
Mr. Sero Ilves, Director of Kansallis-Osake-Pankki
Mr. Jaakko Kahma, Managing Director of Finnish
Foreign Trade Association
Mr. Rafael Hakkarainen, Chef de Protocol
Mr. S. von Numers, Ministry of Foreign Affairs
Mr. Henry Morgenthau III
Lieutenant McKay
Mr. Harold Shantz
Mr. L. Randolph Higgs
LUNCHEON
August 21, 1939.
At the Savoy Restaurant.

Mr. Kisto Ryti, Governor of the bank of Finland, (host)
Hon. Henry Morgenthau, Jr.
Field Marshal Baron Mannerheim
Mr. Eljas Erkko, Minister of Foreign Affairs
Mr. Wainö Tanner, Minister of Finance
Mr. August Ramsay, prominent business man in semi-
retirement
Sir Henrik Ramsay, Managing Director of Finnish
Steamship Company
Mr. Gösta Serlachius, prominent manufacturer
Mr. Axel Solitander, Managing Director of Central
Association of Finnish Woodworking Industries
Professor K. T. Jutila, Director of Bank of Finland
Mr. Rainer von Fieandt, Managing Director of Nordiska
Föreningsbanken
Mr. Walter Gräsbeck, Managing Director of Finnish
Woodpulp and Board Union
Mr. Rafael Hakkarainen, Chef de Protocol
Mr. Urho Toivola, Director of the Press, Ministry
of Foreign Affairs
Mr. S. von Numers, Ministry of Foreign Affairs
Mr. Henry Morgenthau III
Lieutenant McKay
Mr. Harold Shantz
Mr. L. Randolph Higgs
SUMMARY

(1) United States securities have suffered a relatively small net decline during the crisis period. Through Tuesday, August 29, their decline amounted to a little less than the net amount of their gradual decline between the June 5 high and the onset of the severe stage of the crisis on August 19 (Chart I). These two drops together cancelled only about 42 percent, on the average, of the rise which had occurred between January and June of this year. The greatest weakness during the crisis period has been in medium-term bonds (Charts II and III).

(2) High-grade corporate bonds, which had been firm during the two and one-half months preceding the middle of August, have followed the same pattern as Treasury bonds during the crisis period (Chart I). The crisis has brought about a practical cessation of offerings of new corporate bonds.

(3) Bank holdings of United States securities have increased somewhat during the three months ended August 23, and have probably shown no appreciable decline during the crisis period (Chart IV).

(4) British Government securities have been consistently weak during the past three months, but have declined little more than United States securities during the crisis period itself (Chart V). French Government securities have been persistently weak since the beginning of the year, but declined somewhat less than either British or American securities during the current crisis period, and — unlike either of these — had recovered their entire crisis loss as of the Tuesday close.
I. United States Government Securities

The development of the present international crisis caused a sharp drop in the prices of United States securities beginning Monday, August 21, and ending Thursday, August 24. Since Thursday there has been a considerable recovery.

The course of the average yield on all Treasury bonds with twelve years or more to run until maturity or earliest call date is shown on Chart I. The long-term yield reached a record low of 2.07 percent on June 5. After June 5, and up to the close on August 19, the last market day before the beginning of the severe phase of the crisis, the average yield showed a net increase of 0.12 percent. The drop from Monday to Thursday last week caused a further increase in the average yield of 0.15 percent, raising it to 2.34 percent. The recovery since Thursday has brought the yield down again to 2.28 percent as of Tuesday, August 29.

Chart II compares the position of the market on June 5, August 19, and August 29. It indicates that the increases in yields for the period since June 5 have been greatest in the short and medium maturities of bonds and the least in the longer maturities.

The net drop resulting from the current crisis plus the previous gradual reaction from the June peak amounts in all to a cancellation of about 42 percent, on the average, of the rise which had occurred between January and June of this year. Medium-term issues have lost a somewhat larger percentage of their gain.

The yield changes between January 26, the (price) low for the year; June 5, the peak of the spring rise, and August 29, for three bond issues of different maturities are shown in the following table:
Mr. Hanes — 3

Changes in the Yields of Three Selected Treasury Bonds (One Short, One Medium, and One Long) Between Jan. 26 and June 5, and Between June 5 and Aug. 29 (Percent)

<table>
<thead>
<tr>
<th></th>
<th>Yield as of</th>
<th>Net change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 26</td>
<td>June 5</td>
<td>Aug. 29</td>
<td>Jan. 26:June 5: of June 5:Aug. 29: lost</td>
</tr>
<tr>
<td>2's 1947</td>
<td>1.76</td>
<td>1.25</td>
<td>1.45</td>
</tr>
<tr>
<td>2-1/2's 1949-53</td>
<td>2.24</td>
<td>1.71</td>
<td>1.96</td>
</tr>
<tr>
<td>2-3/4's 1960-65</td>
<td>2.59</td>
<td>2.26</td>
<td>2.39</td>
</tr>
</tbody>
</table>

Chart III shows the day-to-day fluctuations since July 1, of the prices and yields of four securities — the three bonds included in the above table and the longest note. The medium-term bond has shown the greatest weakness during the crisis in terms of both price and yield.

II. High-Grade Corporate Bonds

High-grade corporate bonds, which had continued firm while Treasury bonds were gradually receding during the two and one-half months preceding the onset of the crisis, have suffered approximately the same decline as Treasury bonds during the crisis period itself. Our average of the yields of long-term high-grade corporate bonds, which had declined by 0.4 percent between June 5 and August 16 (while the yield on Treasury bonds was moving in the opposite direction) subsequently rose by 0.11 percent to 2.87 percent as of Tuesday, August 29. The spread between the yield of long-term Treasury and high-grade corporate bonds on August 29 was 0.59 percent, the same as on August 16 before the onset of the severe stage of the crisis (Chart I).

The crisis has brought about a practical cessation of offerings of new corporate bonds, only one issue of about a million dollars being brought on the market last week. On Wednesday the $45 millions issue of the Northern Indiana Public Service Company scheduled to reach the market on the following day was postponed indefinitely.
III. Bank Holdings of United States Securities

Weekly reporting member banks increased their portfolios of direct and guaranteed government securities by nearly $500 millions in the three months ended August 23. This increase consisted principally of short-term obligations -- including a large share (70 percent) of the run-off of the Federal Reserve banks' portfolio of Treasury bills occurring during the period, some short-term guaranteed issues (partly the CCC note issue of August 1) and some short-term Treasury notes.

More than half of the total increase was accounted for by the reporting member banks in New York City alone. On net balance, these banks put the major portion of their purchases into guaranteed issues and Treasury notes. Since the middle of July, however, they have been slowly but steadily reducing their holdings of Treasury bonds, replacing them with bills.

The latest data available on bank holdings of Government securities, reported above and shown on Chart IV, are for August 23, and give effect only to transactions made on or before August 22. The sharpest single day of decline in the Government bond market occurred two days later on Thursday, August 24. It is improbable, however, that this decline was due in any substantial part to bank liquidation, for we are advised that the price declines on Thursday and Friday were due principally to a scarcity of bids, rather than to large offerings. The Federal Reserve Bank of New York reports that there was some increase in the number of small offerings on those days, and that the selling came principally from smaller institutions throughout the country.

IV. British and French Government Securities

During the whole of the last three months, the course of British Government security prices has been downward. The price of 2-1/2 percent consols, which during May had staged a moderate recovery, receded steadily during June, July and August. The present crisis has caused a further steep decline in prices to levels not touched since 1932. The yield on 2-1/2 percent consols rose to a high of 4.00 percent on August 22. On Tuesday, August 29, it stood at 3.91 percent (Chart V). This figure represents a recovery from a yield of 3.93 percent on Monday.
The spread between the yields on United States and British Government securities has continued its upward trend and has widened steadily in the last three months, in spite of the decline in United States Government securities during this period. The crisis itself, however, has had a surprisingly small effect upon the spread. At the beginning of June, it was 1.50 percent; on August 16, it was 1.60 percent; and on August 29, 1.63 percent.

The foregoing comparisons are subject to the reservation that the London Stock Exchange is not a free market at the moment. Action was taken by the Exchange on Thursday, August 24, to prevent any further drop in gilt-edged prices. Minimum prices were instituted for all British, Dominion and colonial Government securities, such minima being the lows of August 23. The fixation of minimum prices can hardly be responsible, however, for the rise in British Government securities which took place on Monday and Tuesday.

The prices of French Government securities have declined more or less steadily since the beginning of the year. The yield on 3 percent perpetual rentes, which stood at 3.37 percent on December 21, 1938 (its lowest level in some years) had risen to 4.01 percent on August 18, and stood at the same level on Tuesday, August 29, having recovered from a yield of 4.14 percent on the preceding day.

Attachments.
Chart I

Comparative Yields of Average of All Long Term U.S. Treasury and Average of High Grade Corporate Bonds

Yields Based on Wednesday Quotations

1938

1939

Inverted Scale PER CENT

Inverted Scale PER CENT

Long Term Treasury* (12 years or more to earliest call date)

Corporate

Spread Between Long Term Treasury and Corporate**

*Spread in line indicates change in composition of Long Term Treasury average

Office of the Secretary of the Treasury

Regraded Unclassified
Chart III

PRICES AND YIELDS OF SELECTED GOVERNMENT SECURITIES

Daily

Office of the Secretary of the Treasury

Regraded Unclassified
Chart IV

U.S. GOVERNMENT SECURITY HOLDINGS
WEEKLY REPORTING MEMBER BANKS
Cumulative Net Change From Feb 21, 1939

Chart IV shows the cumulative net change in U.S. government security holdings for New York City, All Other, and All Cities from February to September 1939. The chart includes graphs for Bonds, Bills, Total, and Notes, illustrating the changes in these categories over time.
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS

Yields Based on Wednesday Quotations

Long Term Treasury* (12 years or more to earliest call date)

U.K. 2½% Consols

Differential

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

Office of the Secretary of the Treasury

Office of Secretary of the Treasury

Regrades: Unclassified
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Stockholm, Sweden
DATE: August 31, 1939, 3 p.m.
NO.: 64

The crown rate will be controlled by the Riksbank at 4.20 to the dollar for several (omission); the Riksbank sold $2,000,000 yesterday in order to do this. It may be necessary, according to the Governor, to permit the crown rate to drop to 4.22 or 4.23 to the dollar in four or five days. Accordingly, there is a provisional pegging of the krona to the dollar. The Governor hopes that later on he may be able to establish a more or less permanent peg in the belief that it will help to maintain confidence.

STERLING.

EA: LW
Secretary of State,
Washington.

1684, August 31, 6 p.m. (SECTION ONE)
FOR THE TREASURY.

The exchange market was rather quiet today while traders maintaining an attitude of watchful waiting. The French fund was a buyer of sterling at 175.20 and a seller at 17.35. The dollar was stronger with franc dollar rate now at 40.60 and the pound dollar cross rate has ranged from 4.33 to 4.38. The fund was about even on balance for the day. There was light trading in the forward market where the premium on one month francs was 40 centimes for three months. The belga was strong against the dollar at 5.84 and the Swiss franc and florin followed our currency. The atmosphere was somewhat depressed in the absence of constructive news, the closing of the London stock exchange tomorrow and the evacuation of children from London. Rentes were down 50 to 60 centimes. There was again no activity on the money market.

CSB

BULLITT
Secretary of State, Washington.

1664, August 31, 6 p. m. (SECTION TWO)

The interest rate on 75-day to 100-day treasury notes which since April 22 has been 1.75% was today raised to 2% as an indication that purchases of short term government paper has been slackening in view of currency requirements in the present emergency.

The wholesale price index for August 26 has dropped from 671 to 675 owing principally to lower foodstuffs prices. The work week in the coal mines has been increased from five days to six days.

The Bank of France statement published today for the week ending August 24 reflects only the beginning of the crisis developments. Commercial advances are up 3,850,000,000 and 30-day advances 1,344,000,000 francs. Note circulation shows an increase of 6,844,000,000 and deposits were down 377,000,000. Gold coverage dropped from 65.36 to 62.64%.

(END OF MESSAGE)

BULLITT

NPL
The following rather detailed story of the day shows the hectic atmosphere which prevails. The City arrived at work under the shadow of the further Polish mobilization but reports from Switzerland and Holland soon came through interpreting the constitution of the German National Defence Council as a result of a showdown within the Nazi Party and attaching importance to the fact that it does not include Ribentrop, Himler and Goebbels which were considered as hopeful signs. Consequently, the dollar was very steady during the morning around 4.34-6. Just before lunch the announcement that the evacuation of children would start tomorrow dashed such hopes though it included a statement that this move did not mean that war is inevitable and that since the evacuation will take two or three days it was considered wise to start in view of the prolongation of tension. About three o'clock the announce-
-2- #1339, August 31, 6 p.m., from London

ment that the Stock Exchange would be closed tomorrow had a further depressing effect. It had been pre-arranged that the Stock Exchange would close "in the event of a national emergency" for a short time, and yesterday it was announced that quarters had been obtained in Denham in case it became necessary to house the Stock Exchange outside London. Open positions will be suspended and during the period the exchange is closed members are not obliged to open their offices.

In the afternoon the announcement of the full mobilization of the British fleet and the calling up of the remainder of Army and Air Force Reserve brought a sharp break and the pound went to 4.27 with dollars strongly bid, especially from New York. These measures have been accepted calmly because the realization is fairly general in the City that whether the issue is to end in peace or war such steps had to be taken before its termination.

Gold was fixed at 159s which gave a 3d discount at 4.36-1/2. 135 bars were sold, 45 of which were married and the market was pro-rated.

The Bank of England return for yesterday shows a record increase in the note circulation of £21 million, making the total £529 million. Public deposits were up £9.7 million and bankers' deposits down about £2 million.

KENNEDY