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2:30

1

September 1, 1939.

To: Chief Wilson

From: Acting Secretary Hanes - 2:00 p.m.

NOTE: For transmission to Secretary Morgenthau through Coast Guard radio station at Fort Hunt, Va.

Washington - Warned by Berlin to keep ships and planes out of Danish and Poland period

London - British and French instruct Berlin ambassadors to request passports unless Germany quit Poland period

London - Chamberlain announces bill to make military age 18 to 41 period

Paris - Considers ultimatum to Germany period

Grain - All Winnipeg grain-futures up the limit period Chicago all wheat and rye futures up the limit period

Markets - 2:15 daylight

Stockmarket higher after 2:00 with tape running late period tape clear at 2:25

30 industrials 128.92 off 5.49

20 R. R's 25.05 off 1.05

20 utilities 23.15 off 1.39

Volume 1,200,000 vs. 330,000 yesterday

Commodities - 2:45

Dec. wheat	73 1/2 B up 5 points	( All futures up ( limit up 5 to 8 cents ( Range up 4 to 6 1/4 (
Dec. corn	48 1/8 B up 4 points	
Oct. cotton	8.41 unchanged	

~~Coppers and steels lead market period buying-breaders to entire lists with war hedges in the va-period returns up sharply period~~

London - House of Commons approves war credit 500 million pounds period

London - Chamberlain declares that while Nazi government exists and continues methods there can be no peace in Europe period

155  
2

September 1, 1939.

To: Lt. F. E. Pollie  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hanes

NOTE: Confirming telephone conversation:  
This is confirming wire, given to you over telephone  
this morning at 11:30 a.m. from Acting Secretary Hanes  
to Secretary Morgenthau:

Paris

French Cabinet rejects Italian invitation to five-power conference  
period

Warsaw

German motor advance slows down before Pole cavalry period

Rome

Hitler tells Mussolini he does not need Italian aid now period

London

Germany using gas in posen air attacks period

Paris

Bonnet receives Bullit and pledges to comply with Roosevelt plea  
period

Washington

Hull attends President's conference period President announces  
Wilson has resigned as Ambassador to Germany and returns to State  
Department duties period President denies general order issued to  
clear United States merchantmen from foreign waters period

Washington

Possibility of large scale switch in Latin American trading from  
Europe understudied by State Department period

New York

Stocks at new low since May 17 period break widest since January 17  
period Sugar soared one to ten points period shipping stocks up period  
Dow Jones Index of 40 bonds 86.74 off .97  
Cotton seed oil market closed Saturday period

12:15 tape prices

Am Tel 156 1/2 off 4 3/8  
Beth Steel 56 1/4 off 1 1/2  
Chry 73 1/8 off 5  
Gen Mot 42 5/8 off 1 7/8  
Genj 36 1/2 off 1  
U S Steel 44 1/4 off 1 7/8

N.Y. cocoa exchange remains open Saturday period

Markets 12:15

Stocks

30 industrials 129.68 off 4.73

20 railroads 25.30 off .80  
20 utilities 23.32 off 1.22

Commodities

Dec. wheat 73 1/2 up 5  
Dec. corn 48 1/8 up 4  
Oct. cotton 8.36 off 5  
Com. index 51.07 up 3.23

Washington

George L. Harrison says he has never seen the New York financial community work together any better period

New York Stock Volume 10-12 8.60

US

220 yesterday

London

King motors to 10 Downing Street to see Chamberlain period  
Copenhagen

Danes close stock exchange and call men to colors period

Dublin

Stock exchange closed period

Berlin

Foreign correspondents not allowed with armies period

September 1, 1939.

To: Chief Wilson

From: Acting Secretary Hanes

NOTE: For transmission to Secretary Morgenthau through  
Coast Guard radio station at Fort Hunt, Va.

Berlin - Reports troops well on way to objectives on all fronts period

Ottawa - Prime Minister says Canada to stand by England in war period

Washington - Hitler reply to Roosevelt received by State Department period  
Hanes refuses to discuss Treasury financing. Federal Reserve active  
buying government obligations period

Han

September 1, 1939.

To: Lt. F. K. Pollio,  
Acting Chief, Intelligence Unit,  
Coast Guard

From: Acting Secretary Hanes

NOTE: Confirming telephone conversation.  
This is confirming wire, given to you over telephone  
this morning at 11:00 a.m., from Acting Secretary  
Hanes to Secretary Morgenthau:

Rome Italy will not start military operations. R

New York Stocks rally to .1/2 in active trading following Rome announcement.

New York Brazil suspends exchange dealings Friday and Saturday.

Berlin Pole artillery bombards German railroad at Reuthen.

Paris LeTemps says Poles shoot down German bomber near Warsaw.

The Hague Holland moves troops to frontier.

Washington President says meeting of Congress and invoking Neutrality Law must await developments.

Warsaw Reports that Gdynia blockaded by Germany.

Markets - 11:30 A.M.  
Dec. wheat 73<sup>1</sup>/<sub>8</sub> up 5 cents  
Dec. corn 48 1/8 up 4 cents  
Oct. cotton 8.34 off 7  
11:30 tape prices:  
Steel. 154 5/8 off 6 1/4  
Beth Steel 55 1/4 off 2 1/2  
Chry. 73 off 5 1/8  
Gen. Mot. 41 7/8 off 2 5/8  
Sonj. 39 off 1 1/2  
U.S. Steel 43 1/2 off 2 5/8

Washington State Department trade experts expect immediate temporary disruption of U.S. trading with European countries, as result of war, to be followed by a boom after effect of shock wears off and needs of warring nations become known.

Barter deal between U.S. and Britain for exchange of surplus cotton for British rubber expected not to be affected.

10:30

September 1, 1939.

To: Lt. F. W. Pollio  
Acting Chief, Intelligence Unit,  
Coast Guard

From: Acting Secretary Hanes

NOTE: Confirming telephone conversation!  
This is confirming wire, given to you over telephone  
this morning at 10:30 a.m., from Acting Secretary Hanes  
to Secretary Morgenthau:

UP ticker:

Polish Ambassador holds press conference at 3:00 p.m.  
Saw Hull. Praises Roosevelt appeal.

Berlin

German forbids merchantmen from Danzig and Polish ports.  
London

Admiralty knows nothing of report that British warship  
intercepts Bremen.

Washington

Swiss recall residents in U.S. in broad mobilization  
order, Legation announces.

Radio - London

British prepares reply to Polish appeal pledging assistance.

Markets

Commodity Index at 11:00 a.m. - figures 50.72 up 2.80.

Secretary Wallace ready for emergency steps to prevent  
speculation in food prices.

War situation may change crop control program for next year.

11:00 a.m. Dow Jones stock averages.

30 industrials 129.20 off 5.21  
20 railroads 25.18 off .92

20 utilities 23.14 off 1.40

Stock Volume 10:11  
5.40

US

120 yesterday

Wheat at 11:15

December 73 1/2 up 5 cents the limit

December corn 48 1/8 up 4 cents

October cotton 8.35 off 6

September 1, 1939 10

To: Lt. F. H. Pollie,  
Acting Chief, Intelligence Unit,  
Coast Guard

From: Acting Secretary Hanes

NOTE: Confirming telephone conversation!

This is confirming wire given to you over telephone  
this morning at 10:18 a. m., from Acting Secretary Hanes to  
Secretary Morgenthau

Germans reported nine thirty attacking Poland from three  
fronts East Prussia, Pomerania and Breslau. Also reported bombing  
Gdynia. Poland formally asks aid from France, England.

French council of ministers announces general mobilization  
of all land, sea and air arms of entire French territory beginning  
Saturday also convoking parliament for Saturday. Mussolini  
transmits to France proposal for five-power European conference.  
Polish embassy staff leaves Berlin. Our cabinet meets two this  
afternoon.

New York selling continued leading issues down two to four  
points. Chicago wheat up five cent limit. Cotton off eleven to  
thirteen. Copper up five points. SRO says after opening market  
acting well under circumstances and if present base continues no  
need Commission action or closing. New York Exchange Governing  
Board scheduled meet now eleven morning there for report Magill's  
public examining board but expected take up outbreak  
war. Federal Reserve now meeting survey credit structure. Delano  
says national banks able withstand any conceivable shocks.

9-1-1939

9 am

8

September 1, 1939

To: Lt. F. E. Pollie,  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hanson

Will you please send the following message--PLAIN--to  
Secretary Morgenthau

President appealed four thirty Germany, Poland, France,  
England, Italy refrain civilian bombing. Poland officially  
notified France five eleven of invasion. Second air raid  
Warsaw eleven their time. London reports government will  
ask Parliament grant quote extraordinary war credits unquote.  
Parliament summoned for six tonight noon here. White House  
says no immediate action by President special session or  
application neutrality laws expected. Treasury officials in  
early meeting in contact Secretary Morgenthau. New York  
stocks opened moderately active. Montreal markets will open  
as usual no restrictions. Toronto open with short selling  
prohibited.

Sam

9

September 1, 1939

To: Lt. F. E. Pollie  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hance

Will you please send the following message in CODE  
to Secretary Morgenthau:

Answer your message. Will be in constant communication with  
you from now on on all important matters where time permits.

Will you please send the following message - PLAIN -  
to Secretary Morgenthau:

How much general news are you able to pick up and how complete  
do you wish reports from us on general news items? London Stock  
Exchange closed today. Have not heard but assume same will be true  
in other foreign markets. General feeling is that it will not be  
necessary to close our markets. Announced from London that not  
officially at war yet. However, radio report this morning says that  
Polish-English-French alliance has been invoked by Poland and  
recognized by high British authorities. Hitler announced over radio  
before Reichstag that he would go to the front and named his successor  
in case of his death - (1) Goering, (2) Rudolf Hess, (3) Supreme War  
Council who would choose leader from amongst their number. The French  
Government declared state of SIEGE throughout France and Algeria and orders  
general mobilization. Daladier said quote it started, we have done everything  
we could to avoid it unquote.

From Secretary Mungautan 7:50 AM

10

Gastin: Please assign  
Duffield to send me  
weekly news bulletins.

Mungautan

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attached message sent to C.H. 7:40

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Reports as above and board minutes

To get 5:11 - officially notified mission

Board - 11:00 AM

September 1, 1939.

To: Chief Wilson

From: Acting Secretary Hanes - 4:00 P.M.

NOTE: For transmission to Secretary Morgenthau through Coast Guard radio station at Fort Hunt, Va.

- Rome - Italy announces neutrality period
- Paris - To send ultimatum to Berlin demanding that Germans leave Poland period
- New York - Foreign exchange committee meet at call of Lores but took no action on foreign market period
- London - Chancellor Simon likely to introduce new budget but no date period
- Paris - Poland radio reports sixteen German planes shot down period
- London - Censorship imposed on foreign mail period
- Paris - Expects bourse to open Monday period
- Chicago - Board of Trade clearing corporation raises margin requirements - an average of 2 cents per bushel on wheat, corn, barley and soy; 1 cent on oats, 20 cents per cwt. provisions, and up to \$1.75 per lot of 50 bales of cotton period
- London - Summary of Chamberlain's speech period While the Nazi government exists and continues its methods there can be no peace in Europe period quote The responsibility for this terrific catastrophe lies on the shoulders of one man period We must pursue our task with determination and see it through to the end \* \* \* with moral approval of the greater part of the world unquote Greenwood Labor Party Leader said quote There can be no withdrawal Hitler has become the arch enemy of mankind unquote
- Washington - For the first time trading in United States Treasury bonds on the New York stock exchange was continued after the usual closing time period

Dow Jones Index of 40 bonds 86.51 off 1.20

Stock transactions - 1,970,000 shares vs. 460,000 yesterday

Closing stocks

Alld Chem 164 up 4  
 Am Smelt 46 1/4 up 4 1/4  
 Am T & T 158 1/2 off 2 3/8  
 Beth Steel 65 up 7 1/4  
 Chrysler 78 1/8 Unch  
 Du Pont 163 up 3  
 Gen Elec 35 3/4 up 3/4  
 Texas Corp 37 1/4 up 3/4  
 United Airo 36 1/2 up 2 3/4  
 U S Steel 52 up 5 7/8  
 Gen Motors 44 7/8 up 3/8  
 Goodyr 26 up 7/8  
 Inter Nick 48 3/8 up 2 3/8  
 Johns-M 62 off 3  
 Loew-S 35 5/8 off 3 7/8  
 Sears 75 Unch  
 Sonj 41 1/4 up 3/4  
 Atchison 22 1/2 off 1/2  
 Balt & Ohio 4 1/4 unch  
 Ches & Ohio 31 1/2 off 1/2  
 N Y Cent 12 1/2 unch  
 Penna RR 15 1/4 off 7/8

*No state  
Tel 530*

September 1, 1939.

To: Lt. F. E. Pollio  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hanes - 5:30 P.M.

NOTE: Confirming telephone conversation:  
This is confirming wire, given to you over telephone  
at 5:30 P.M., from Acting Secretary Hanes to Secretary  
Morgenthau:

London - Today's food and commodity prices fixed as stand-still prices.  
Government takes over all railroads period

Washington - President Roosevelt announces radio address for Sunday at  
9:00 P.M. period

SEC - Officials gratified at manner stock market withstood first shock  
of war. Expect securities market will open Saturday period

Wallace on radio urges American farmers to plan as though there is no  
crisis in Europe period

Dr. Thomsen delivers reply to President's appeal to State Department  
period Reich thanks him for message and says quote The German Fuehrer  
has left nothing untried for the purpose of settling the dispute \* \* \*  
in a friendly manner unquote

## OPEN MARKET MEETING

September 1, 1939.  
11:00 a.m.

Present: Mr. Hanes (presiding)  
Mr. Bell  
Mr. Lochhead  
Mr. Haas  
Mr. Murphy  
Mr. Eccles  
Mr. Harrison  
Mr. Szymczak  
Mr. Draper  
Mr. Piser  
Mr. Leach  
Mr. Williams

Hanes: Gentlemen, I guess everybody here is as familiar with the situation in the market as we are, more so perhaps; but we thought we'd have this meeting anyway, in spite of the war and everything else, to get the general consensus of opinion. The Secretary will get back, I hope, Sunday night; he might not be back until Monday morning. But in the meantime I thought I'd get as much done and as much behind us as we possibly could, and get as good a consensus of opinion of this group as we could.

I guess there are two questions before us now. Heretofore the question has been what type of security we were going to issue, and how much. Now another question enters into it, which is "whether or not," as well as "what kind." So with your permission I'd like to go around and just get some indication of how all of you, each one of you individually, and collectively - how we all feel about it.

Marriner, could we start with you?

Eccles: Johnny, I had a written statement that I'd like to read here, and I would suggest that you let George talk on the subject first. I expect - it's just being finished, typed up. I'd just like to wait until I have that here.

Hanes: Fine. George, do you want to start, then, give us your slant on the present situation?

Harrison: I think in view of the emergency and the condition of the markets and the large balance that the

-2-

Treasury already has, that it would be folly to try to raise any new money right now - and unnecessary.

As to the refunding of the December maturities, I can't give you any sound advice until next week, because then will be the last minute that you have to decide. There are various arguments that can be advanced one way or another on the wisdom of making a refunding issue. But if the market should for any reason quiet down to a point where you could determine and fix a fair price for a note, either a new one or preferably an old - opening up an old issue - I thought you ought to favorably consider offering an exchange next week for the December maturities.

I say that for two reasons: First, that has been your policy now for a year or more; and as long as it has and the Government has tried to give the impression that it wants all markets to stay open and as nearly normal as possible, I think it would be favorably rather than unfavorably interpreted if you offered the exchange. But I wouldn't want to advise you whether you should do that today, as long as we've got three or four days of grace, because the state of the market might make it unwise to make the offer. But if the state of the market is such that it looks as though you could reasonably expect a fair offering at a fair price and a fair exchange, I certainly would do it. You don't know what may happen before December. You don't - we hope we won't get into war. I don't think we will - certainly not by then anyway. But, contemplating possibilities, if you can make your exchange next week on a fair basis, why run the chance of December: is about the way I feel. But whether you should make the exchange next week I think ought to be determined only after you got the latest dope.

Hanes: Is that all, George?

Harrison: Yes.

Hanes: We'll skip the Treasury boys.

Williams: My opinion is the same.

-3-

Hanes: You concur in what Mr. Harrison said?

Williams: Yes.

Piser: I concur essentially in the same thing. It seems to me that one reason why the Treasury has been carrying this exceptionally large balance is for just such a period as we are in now, and I feel rather strongly that no cash should be raised at this time. As far as refunding is concerned, that can go over for several days before any decision is made.

Hanes: You say "exceptionally large balances." What have you in mind as a normal balance? What would you say is a reasonable balance for the Treasury?

Piser: Well, I should think they could get along on a much smaller balance than they have now, perhaps five hundred million dollars on the average, say.

Hanes: You haven't anything else to add to what he said?

Piser: No.

Leach: I've talked to several bankers and one insurance company in our district, and they all say the same thing: make no cash offering now, and that if things looked good enough next week, why, offer a refunding in the form of a note. Of course, I think you couldn't consider a long bond under the circumstances.

Harrison: May I add one thing to what I said - not that it's important, because so much has happened in the interval - but I was having a talk with this group that is now on this committee of mine in New York....

Draper: With whom, George?

Harrison: With this group of bankers.

Draper: Oh yes.

Harrison: ... yesterday afternoon, and I mentioned what was already in the press, that I was coming down here today to discuss financing and that I wasn't going to take the trouble of asking them their views, because I presumed they wouldn't want to formulate

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any views before they had to, and virtually asked for no comments at all. I was rather interested that they all spoke up, said, if I didn't mind, they'd like to say that they thought that if it were possible at all, that you should make the refunding issue next week, for some of the reasons that I have mentioned. First, you don't know what might happen in December; and, more particularly, they thought that it would be a sign of encouragement rather than discouragement to the market if you felt that you could go ahead as usual. Now, they might all change their opinion today and would want to reserve their opinion until the last minute, as we all do. But I was interested; that was their reaction yesterday: they were on the favorable side rather than the unfavorable side.

Hanes: Uh-huh.

Drapert: My views are in the statement, Mr. Secretary - in the statement of the Chairman.

Hanes: All right.

Szymczak: I might say that the Board members present in Washington this morning have agreed upon a certain statement which the Chairman will make.

Hanes: I see. Fine.

Eccles: That doesn't - in saying that, I want to say that doesn't mean there's any disagreement necessarily so far as you - George and you are concerned, because it's a matter that we've been discussing, oh, for a month, I suppose, and they didn't have an opportunity to give the consideration to the matter and - that is, the matter of filing the statement; so it wasn't even suggested that they do so, and in filing it, it isn't a statement that would indicate any necessary disagreement at all, and neither does it indicate any disagreement among the Board members, because it merely says that it expresses the views of the four who were present, who had had an opportunity to consider it, Mr. McKee being on a vacation and Ronald being down to the Springs. I just wanted to make that as a preliminary.

I don't know where that statement is. I'm waiting for it now.

-5-

Hanes: Want to telephone?

Szymczak: It was supposed to be on the way.

Eccles: They were practically just going to send it.  
(Eccles goes out to phone)

Hanes: They say bonds are still coming in rapidly from out-of-town sources - mostly small lots being offered. Largest, one or two million. Total purchases, roughly, 22 million. Federal Reserve market bids is the only market. Down three-eighths from last night.

Harrison: Three-eighths.

Bell: That means they've dropped twice since you started, an eighth each time. They've dropped a quarter since the opening.

Szymczak: We're in the market alone at this point.

Hanes: That's what this says. The boy says "Federal Reserve bids is the only market."

Draper: Does it give the total purchases?

Bell: 22 over the board.

Draper: 22 over the board.

Harrison: Not 22 over the board, Danny.

Szymczak: Board and counter.

Draper: Exclusive of dealers.

Bell: Exclusive of dealers, yes.

Harrison: And what are they off from last night's close?

Bell: Three-eighths.

Hanes: Three-eighths.

Harrison: That's not bad.

-6-

Hanes: Not so bad. They got a pretty nasty break in the stock market. Chrysler's off five dollars, and General Motors is off about three - two and a half to three. Telephone is down six dollars. Canada is only off a dollar. Steel is off two dollars. Bethlehem is off two and a half.

(Eccles returns)

Eccles: In the rush of the damn thing, they made a mistake or two, and they started to rewrite it. Sorry to keep you waiting like this.

Szymczak: Why can't you make the statement verbally?

Eccles: I can give it verbally. We'll leave it here.

Hanes: Why don't you (reporter) just leave that off.

(Eccles gives impromptu summary of portion of statement)

Eccles: I'd like to say - and this isn't part of the statement - that the purpose, as I understood it, of anticipating the maturities, which was begun here last year - I think it was done, as I understood it, for the purpose of having a date at which all financing could be passed up, if need be: both refunding and new financing; and it was in anticipation of some unusual emergency situation, just such a situation as happens to have developed at this time. Therefore, to pass up the refunding certainly could not be considered, it seems to me, in any way as anything extraordinary, in view of the fact that you are now taking advantage of a situation that you contemplated.

George has expressed one point of view, and I don't say that I differ, but I do think there may also be - should be some thought given to another consideration, which is that if it is generally known by the public and the banking community that the Treasury can pass up all financing at this time, that to many people may indicate that that is an evidence of strength. So that there are the two sides to it.

Szymczak: That part of it, of course, we don't agree on. It

is my opinion, the same as George's, that ....

Eccles: I don't say that I disagree with George. All I'm saying is that there will be certainly some - the majority may be on the other side, but there are certainly ~~some~~ that might well say that the Treasury - Government financing must be in very excellent condition because they can go without doing any financing whatever during a period when they are making very large expenditures.

(Eccles proceeds with further summarization of formal statement)

(Mr. Hanes talks with President on White House phone, reporting condition of stock market and Govt. bond market)

Eccles: I was just going to suggest, Johnny, that you tell the President that we bought 70 million, because in taking ....

Szymczak: 72.

Eccles: ... because in taking 50 million from the dealers, it certainly is taking off the market possibly the weakest bonds that would be on the market.

Szymczak: They'd be the first to come on.

Eccles: And I think it is the most effective support we could possibly give to it.

Hanes: Well, he asked, what have we bought in the open market, so I told him. I guess I .....

Eccles: That's where we buy most of them from: from the dealers.

Szymczak: In fact, we bought them from them before the market opened. Had them in there this morning at 8:30.

Bell: Before the market opened. Where did they get these bonds? They were pretty well cleaned up yesterday.

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Szymczak: Don't know where they got them.

(Hanes again talks to President, reporting on complete Federal Reserve bond purchases, on commodity prices, and sterling and franc rates)

Eccles: Well, this is - I'll just read this. I've got it now. If you want to take time - it's a couple pages here.

"The members of the Board of Governors present today, Governors Eccles, Szymczak, Davis and Draper, after carefully considering the question of the September financing in relation both to immediate and prospective requirements of the Government, as well as to the present and probable future condition of the investment market, desire to make the following suggestions:

"1. It is not advisable to do any new financing at this time, because of the present uncertainty in the security markets, due to conditions abroad, and in view of the Treasury's large working balances, receipts from United States Savings Bonds, Social Security trust funds, and the possibility of repaying the Treasury through outside financing of the \$400 million owed to it by the Reconstruction Finance Corporation, the Commodity Credit Corporation and the United States Housing Authority. If, however, new financing should be decided upon, it would be preferable to offer short-term rather than intermediate or long-term obligations.

"2. If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations.

"3. That consideration be given to the advisability of deferring until next week the question of refunding the December maturities.

"Cash financing.

"On the basis of estimates received from the Treasury it is unnecessary to raise any new money at this time, thus avoiding a further increase in the public debt. Should a contingency arise at any time during the next year, however, making it difficult to refund or raise new money through the offering of intermediate or long-term securities, the situation could readily be met by issuance of bills or other short-term obligations, taking advantage of the favorable conditions in the money market. As a result of developments over the past few years, excess reserves are now nearly five billions, and there is every reason to expect a continued growth. Bank deposits and currency are, likewise, at an all time high level. There is no prospect that either public or private demand for credit would materially reduce the unprecedentedly large volume of funds available at low interest rates for any probable amount of short-term financing.

"Under these circumstances, it is considered desirable to avoid increasing the public debt for the purpose of carrying working balances greatly in excess of current requirements.

"Short-term Financing.

"If it should be decided otherwise, however, it is felt that it would be preferable to offer short-term obligations and to increase the proportion of the Government's debt which is financed through such short-term obligations. This view is prompted not only by the conditions prevailing in the money market, but also by longer-range considerations of Government policy. Under present conditions, when the Government is pursuing a policy of deficit financing and of monetary ease, it would have the benefit of borrowing at very low rates on short-term obligations. Looking to the future, however, it may at some time become necessary to adopt a policy of restraint. Under boom conditions the problem would not be one of deficit financing but largely one of refunding Government obligations. Under certain conditions it might be advisable to apply restraint through increased interest rates of the long-term obligations, which had been issued when an opposite

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policy prevailed, would then undergo substantial depreciation. From the standpoint of averaging the cost of Government financing over periods of business cycles, a higher rate could well be paid in boom times when revenues would be large and deficit financing would no longer be necessary.

"It is felt that the effects of wide fluctuations in interest rates, which are inevitable when monetary policy changes from one of ease to one of restraint, would be lessened by financing a larger proportion of the public debt in the short-term offerings at this stage."

Now, that is ....

Szymczak: This has the whole situation.

Eccles: It's something - we would want to file this, with maybe very slight modification, if it hadn't been - with this war development we've added this as another factor in the situation.

Hanes: That's brought up to date with the war in view.

Eccles: That, as you'll notice, in no way conflicts with the other members of the Committee with reference to the policy to be adopted today regarding both refunding and new financing.

Hanes: I take it that the sentiment is unanimous that we should say nothing today at all, beyond that we're going to wait and - I expect all of us can be happy ...

Eccles: Be no new financing.

Hanes: Huh?

Eccles: No new financing.

Szymczak: You can say that.

Hanes: I don't know whether we want to say anything at all; we don't want - not knowing what our opinion will be next week. We'd better not make any final opinion, because it's obvious to anyone that you couldn't tell today what's going to happen next week, when we're

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ready to make some announcement. So it would be my hunch that we just say there is no announcement to be made until next Wednesday.

Bell: Tuesday.

Hanes: Would you say Tuesday?

Bell: Well, not before Tuesday.

Hanes: Not before Tuesday.

Bell: Yes.

Eccles: While we're buying heavily in the market today, and we may again be tomorrow - may be Monday - if there was knowledge there was to be no new financing, that would seem to me to be favorable. It would seem that when the Treasury does not - balances are such that the Treasury does not need to finance now, to give a market securities when, in order to hold a market, we are buying heavily of existing securities, that it would certainly be inadvisable from every point of view.

I am wondering if the market - if the uncertainty as to whether or not there is going to be any financing, any new financing - George would know better than I would - would you feel that that would be adverse?

Hanes: Don't you think, Marriner, or do you think - let me ask before George answers your question there - do you think that the market has already had a pretty good indication that there is not going to be any new financing?

Eccles: I would think the market would hardly expect it. But the question is, the market knew there was this meeting today; now we meet and we say nothing about the matter. Does it leave the thing still uncertain, that we haven't decided whether or not there will be new financing? In other words, there might be .... That's the only question.

Hanes: Would you think it advisable for us to say that the Open Market Committee has recommended to the Secretary of the Treasury that there be no .....

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- Eccles: Be no new financing - that the matter of refunding be deferred until next week.
- Szymczak: That would be quite a departure, though, Mr. Secretary, because I don't think you've ever - the Secretary has ever made a statement of what the Open Market Committee has recommended to the Treasury.
- Hanes: I know; that never has been done before, but I'm just wondering if - I'm asking for advice.
- Szymczak: I think it's - we're ....
- Hanes: We're sort of in the dark here.
- Szymczak: The question is whether you want to tie in new financing with the present conditions or whether you were considering new financing as if the conditions didn't exist. My position - I couldn't recommend new financing even if these conditions didn't exist.
- Hanes: You couldn't.
- Szymczak: No, I'm not - not at this time; I'm speaking of the European conditions.
- Bell: You've had the same conditions prevailing for the last three years.
- Szymczak: Not the last month. Not three years.
- Bell: We've had big balances all the way through this period.
- Eccles: But you didn't have big excess reserves.
- Bell: Been pretty large.
- Eccles: No, they were down to - until the - you had a very different money market situation until, oh, about a year and a half ago, when the Treasury desterilized its gold and we decreased reserve requirements. The reserves from that point have been building up from around a billion dollars to nearly five billion dollars, so that the situation has been very rapidly

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changing.

- Bell: Well, even before that you had three billion dollars before you cut them down.
- Eccles: Well, for a short time - I mean, and they worked up with gold imports rapidly, but they were not - there was no permanency to the amount of the excess reserves, because we had used none of the power that we had to decrease excess reserves.
- Harrison: John, it does seem to me that unless you feel you ought to wait until the Secretary returns before you say anything, and unless you still have in mind the possibility of raising some new cash, there might be advantage in saying now that there will be no new financing for cash.
- Szymczak: And just stop there.
- Hanes: Just stop there.
- Szymczak: That's right; say nothing more.
- Hanes: No more today.
- Szymczak: That's right.
- Eccles: That means that - of course, it's implied then that you haven't decided on the other. You don't have to say it. You can say, "There will be no new financing." They'll say, "Well, what about the refunding?" "Well, that hasn't been settled." That's all.
- Harrison: I think I would even go that far and say it hasn't been settled; that we don't have any announcement to make on that before Tuesday.
- Bell: You'll have to say something, because that will be the next question.
- Eccles: Be no new financing, and you'll have nothing to say on the other before Tuesday.

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Szymczak: That's normal procedure.

Eccles: That would certainly be better - if the Treasury could do that, I would much prefer that to saying that the Committee has made such recommendations.

Harrison: I'd hate to have you say that: I'd hate to have you overrule us publicly.

Hanes: Yes, I think that's bad; I don't think that would be fair.

Eccles: I think the other is very much better. And that would help, I think, to give a certain ...

Harrison: But it wouldn't hurt any; so far as it had any effect, it would help.

Hanes: Do you think that this feeling in the market that there is not going to be any new financing, which there certainly exists - I've had a half dozen people tell me - you think that's pretty well discounted?

Harrison: I think it is definitely assumed that there will be no new money raised.

Eccles: On long term. There's no assurance on the other, is there?

Harrison: Well, I don't think anybody thinks you're going for cash in this market,....

Draper: George, isn't that in New York, though?

Harrison: ..knowing what your balance is.

Draper: Isn't that more in New York and not out in the country?

Harrison: Maybe.

Eccles: I think so.

Szymczak: There was a statement in the press to that effect - when was it, today?

Eccles: Some banks wanted it.

-15-

- Harrison: Unless you still want to keep an open mind on it, I think, as the Secretary has often done - he's made that kind of statement before, as I remember, Danny: that there wouldn't be any new financing.
- Bell: Oh yes, when he's made up his mind, that has been announced several days before the formal announcement.
- Harrison: Having announced it several days before on previous occasions, I think there is some advantage now in confirming the impression that prevails certainly in my part of the world, that there won't be any new financing. Of course, if you want to still keep an open mind on it, if you don't want to commit yourself ....
- Szymczak: That may help the market, too.
- Bell: To keep an open mind?
- Szymczak: No, no, to say there won't be any new financing.
- Eccles: I think it would be favorable.
- Hanes: Has anyone else got any suggestions?
- Eccles: I haven't any more.
- Hanes: Sorry we have to meet under such gloomy circumstances.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 1, 1939

TO Mr. Hanes

FROM Mr. Hays

Subject: The Business Situation.

Conclusions

(1) Some further improvement in industrial activity appears in prospect over the next several months, largely because of an expected strong expansion in automobile production, together with increased operations in related industries. In the event of war, this would tend to cushion the initial shock and to tide business over the early period of industrial uncertainty.

(2) Since the recent upturn has carried industrial production about to the current level of consumption, any further substantial business improvement must come about either as a result of increased consumption or through a movement to accumulate inventories. The cautious buying policy which industry has followed for nearly two years has strengthened the general prospect for a steady recovery. By preventing inventory maladjustments, it has made conditions favorable for a general buying movement in the event of a rise in commodity prices.

(3) An outbreak of war might cause but a minor shock to business in the United States. While it would result in a serious unsettlement of international trade, and consequent readjustments in various industries, the many months of war uncertainty have already done much to put industry in a state of preparedness. A heavy export demand for American steel products within a few months after the outbreak of war is anticipated by steel companies.

(4) Commodity prices have recently been stimulated by war demands, particularly in Great Britain, where the depreciation of sterling has been an additional inflationary factor. Were it not for the present heavy stocks of agricultural products, a general rise in world commodity prices would probably already be under way.

Mr. Hanes - 2

The general business outlook

Since the outcome of the European political conflict is not predictable at this time, an appraisal of the business prospect must be confined chiefly to a study of domestic business factors.

The economic background continues generally favorable for a further business recovery during the remainder of the year. Industrial production throughout the world, influenced largely but not entirely by the armament race, is in a sharply rising trend. The New York Times-Annalist composite index of foreign industrial production in June established another all-time peak, further exceeding the high levels of late 1937. The accompanying increase in world demand for commodities and materials is evidenced by a rising trend in the volume of international trade. The physical quantity of world trade during the second quarter of this year, according to Times-Annalist data, increased to the highest level since the last quarter of 1937.

In the United States, industrial production during the past two months has been rapidly recovering from its earlier setback. The FRB index reached 102 in July, a gain of 10 points in two months, which carries it to within 2 points of the December 1938 high. It is possible that some slight further gain has been made during August, in view of the strong upturn in steel activity, despite the shutdown of automobile plants in that month for an early change-over. The prospect of a rapid expansion of new-model automobile production during September and October, the earliest fall increase on record, together with an accompanying expansion in the output of the steel industry and other related industries, suggests a further rise in the FRB index over the next few months.

Any shock of adverse European developments this fall would therefore be cushioned by the business stimulus soon to be provided by the automobile industry. The rise in automobile output is already under way, with all companies now beginning production on 1940 models. The urgent competitive need for a rapid building up of dealer stocks during the early months of the model season would tend to minimize, for the time being, the effect of any war shock.

Mr. Hanes - 3

Basic conditions stable

Our calculated basic business indices, which provide measures of the underlying trend of business, and of the extent to which industrial production may be out of line with basic conditions, remained during July at approximately the levels held during the previous three months. (See Chart 1.) Ordinarily, a rise in industrial production such as that of the past two months, however, would have been accompanied by some improvement in basic demand, in new orders, and (after some lag) in the sales of manufactured goods. The levelling out of the basic indices probably reflects in some degree the depressing influence of foreign uncertainties.

While the outlook for the automobile industry points to further gains in industrial activity this fall, the fact that industrial production is now about equal to the current level of consumption means that any substantial further rise must come about either as a result of increased consumption, or because of a movement to accumulate inventories. Nearly two years of cautious buying policies have reduced inventories generally to rather low levels, and developed conditions favorable for a general buying movement in the event of a decisive upturn in commodity prices.

New orders well maintained

Our index of new orders (shown in the lower section of Chart 1) declined somewhat in July, but slightly less than seasonally. So far during August the volume of new orders has held steady, and apparently remains in a favorable relationship to the level of business activity as measured by the New York Times business index. (See Chart 2.)

There is no definite evidence that the European news has caused any curtailment of new buying. Steel orders during August have averaged higher than in July. Textile orders held generally steady until last week, when they turned sharply upward to the highest level since early March. Other orders declined during June and July, but have strengthened slightly in recent weeks.

Mr. Hanes - 4

The steel industry

Steel output has continued to increase gradually during August, following a pattern almost identical with that of last year but at a 50 per cent higher level. Steel operations during the last week of August were at 63 per cent of capacity, the highest in nearly two years. (See Chart 3.)

The present rate of operations, as indicated on the chart, is in excess of the new orders rate reported by the U. S. Steel Corporation. As was the case last August, however, the more rapid increase in operations of the independent companies (see lower section of chart) apparently indicates that they are receiving a heavier volume of orders than U. S. Steel.

Sentiment in the steel industry is reported as strongly optimistic, war or no war. August bookings of steel orders, according to the Iron Age, are likely to range from 2 to 10 per cent above July, with a brighter outlook for September due to an imminent stepping-up of specifications from the automobile industry. Steel scrap prices have made new highs for the year, and a general firming of prices on finished steel products is under way.

Steel producers, according to the Iron Age, believe that an early settlement of the European crisis would lead to an increased steel demand from domestic consumers. In the event of war, on the other hand, an intense export demand for American steel products is looked for. There has recently been reported a sharp increase in the number of inquiries from potentially belligerent countries, and from neutrals who would be forced to shift their orders to the United States in the event of war.

The automobile industry, as in 1938, will provide a strong source of demand for steel this fall. With their fall requirements contracted for at bargain prices last spring, and steel prices starting to rise, the automobile companies may take an unusual volume of steel during the next few months. The upturn in new-model production now under way may carry automobile output close to 100,000 units a week by the end of September, barring labor troubles or war, according to Ward's Reports. This would approximate the peak established in December 1938. The basic demand for automobiles, according to our calculations, remains well above the production of any recent month.

Mr. Hanes - 5

The commodity price situation

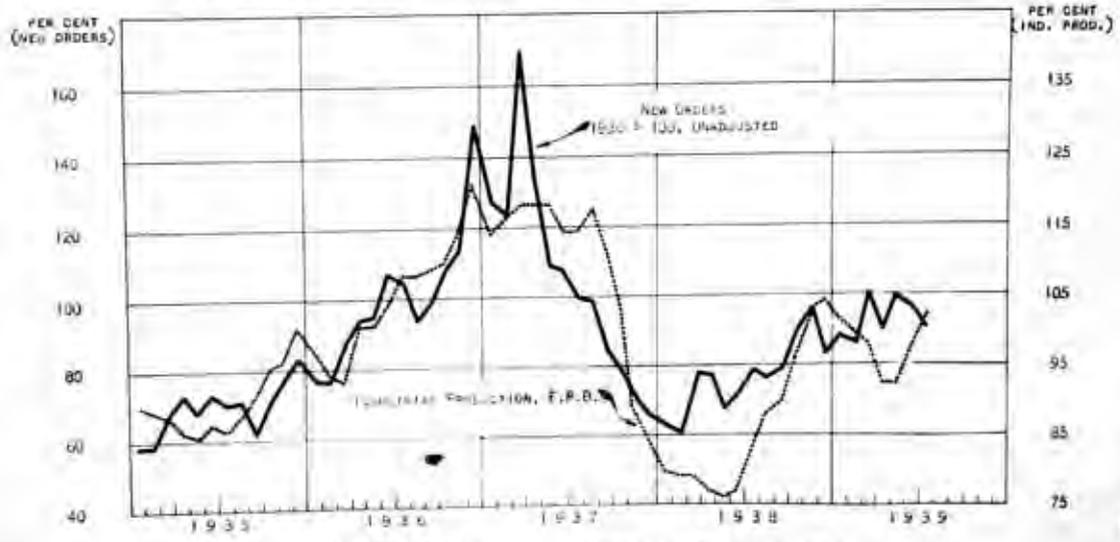
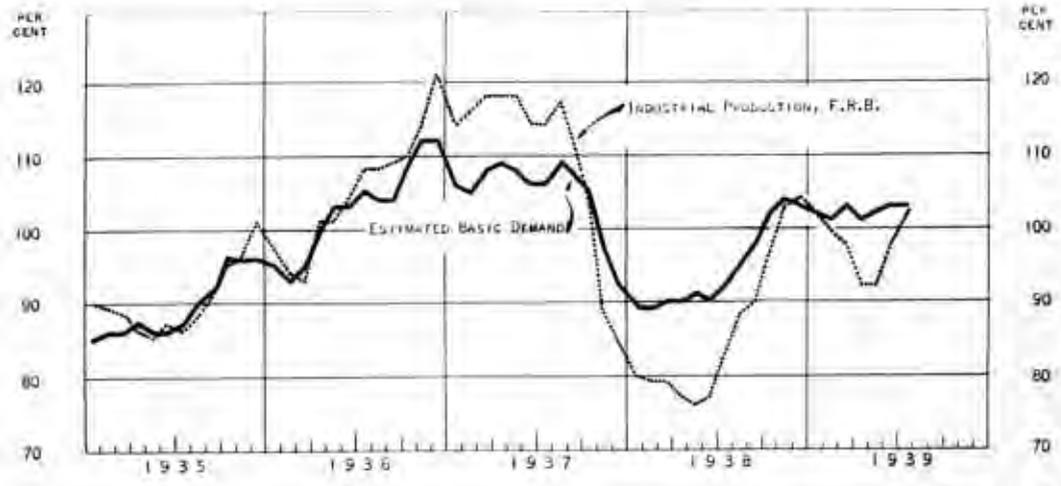
The movements of commodity prices over the past two months have been featured by a further weakening of agricultural prices under the pressure of large stocks of various farm commodities, and by a well-maintained level of prices of industrial raw materials. (See Chart 4.) Deflationary influences apparently continue to affect prices in some degree, preventing a rising price trend that could normally be expected in view of the marked improvement in world industrial activity.

In recent weeks, war fears have been a factor in the commodity markets, particularly for strategic war materials. In the United States, this has brought some upturn in the Dow-Jones and Moody's indices of sensitive commodity prices, though not extending beyond the limits of previous temporary movements. (See Chart 5.) Severe weakness in sterling and associated currencies has been an unfavorable factor on our prices, preventing a greater response to the increased demand.

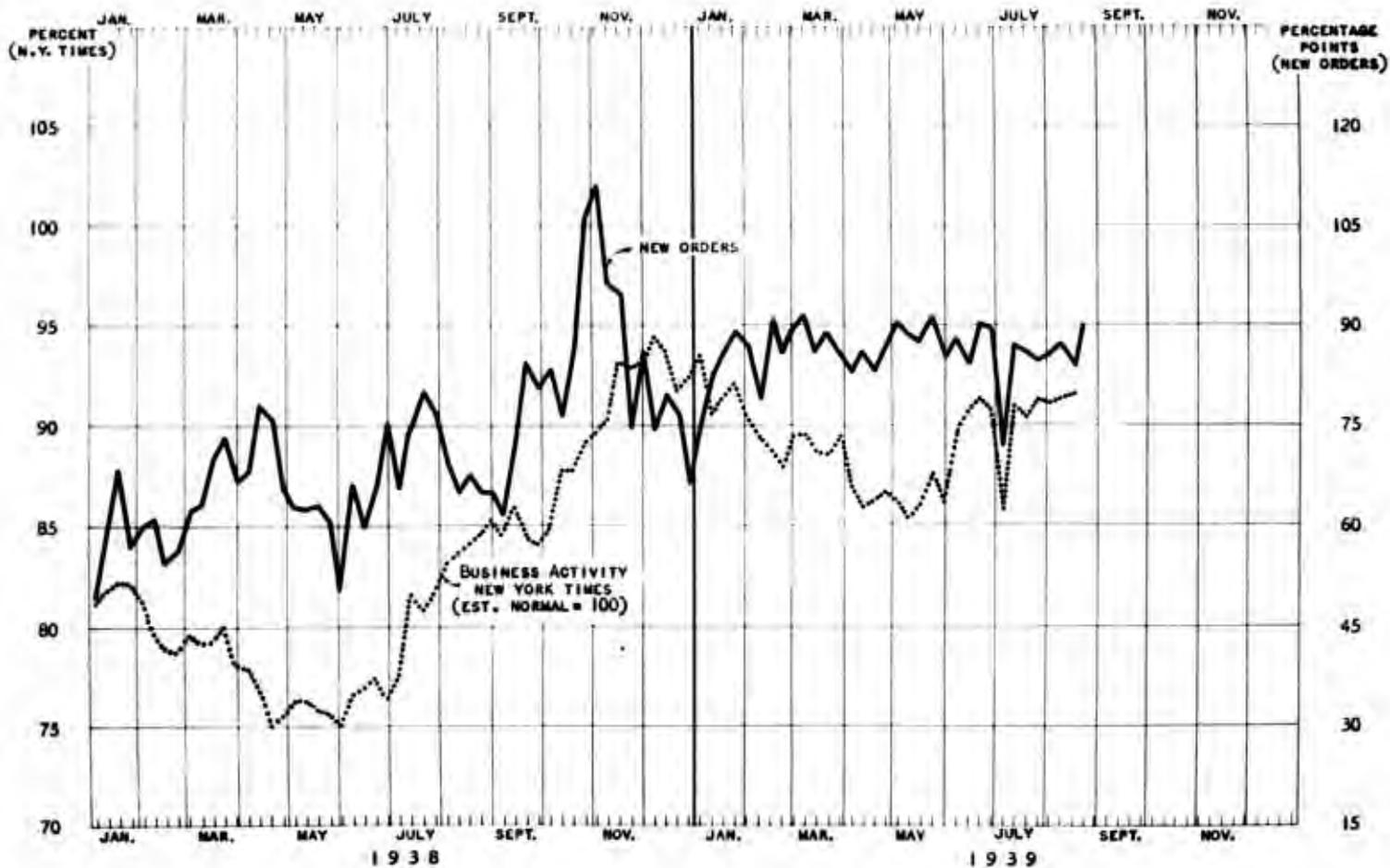
Reuter's index of British prices, on the other hand, shows a decided upturn, reflecting the combined influence of war fears and sterling depreciation. Some observers believe that England may be facing a general price rise, particularly in the event of war, since production in many industries is near the limit of capacity. Such a development would doubtless have an influence on price trends in the United States.

**INDICES OF BASIC BUSINESS TRENDS COMPARED  
WITH INDUSTRIAL PRODUCTION**

1928 = 125 % 100, SEASONALLY ADJUSTED\*



PERCENT NEW ORDERS REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME



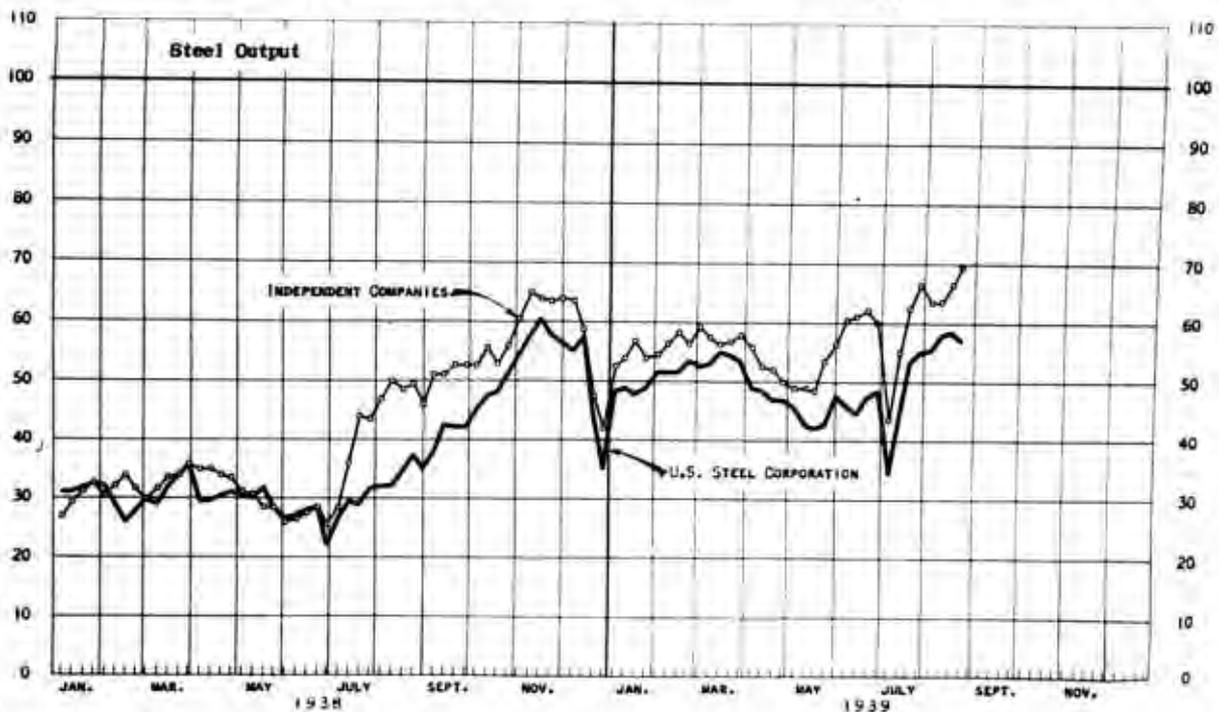
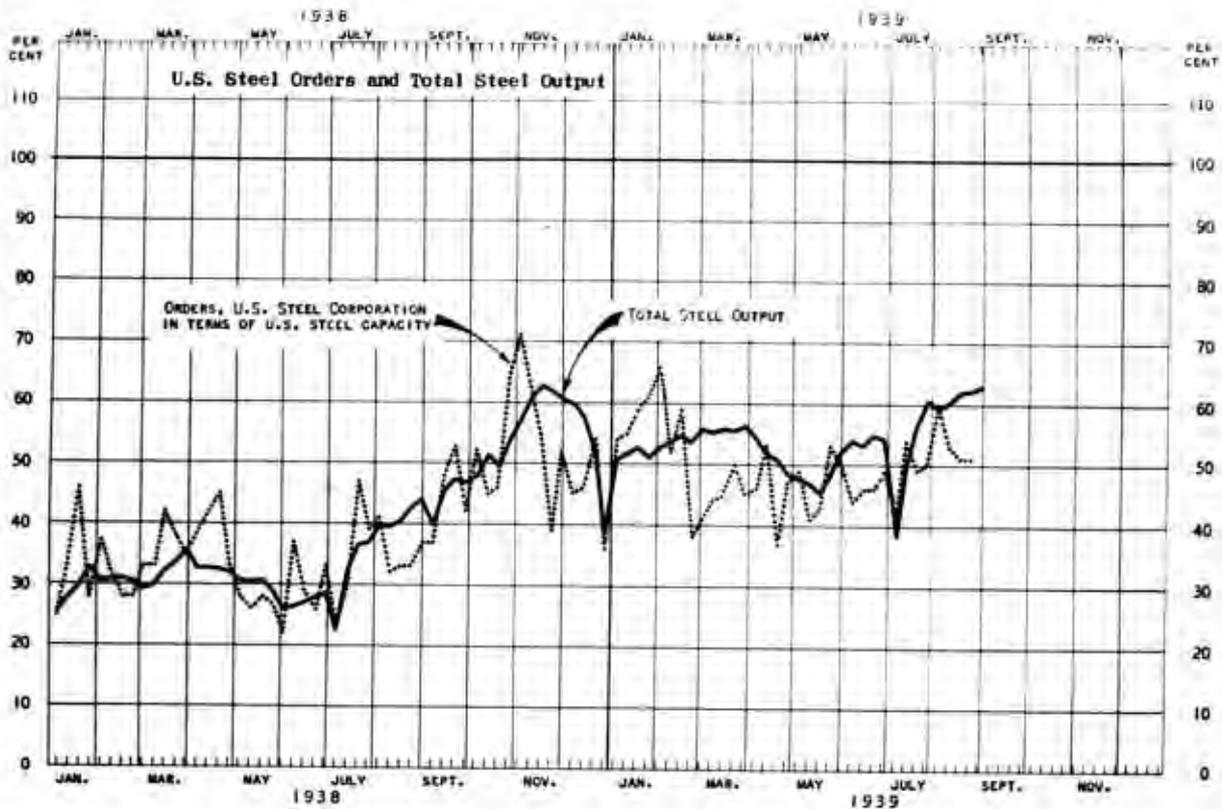
Office of the Secretary of the Treasury  
 Division of Research and Statistics

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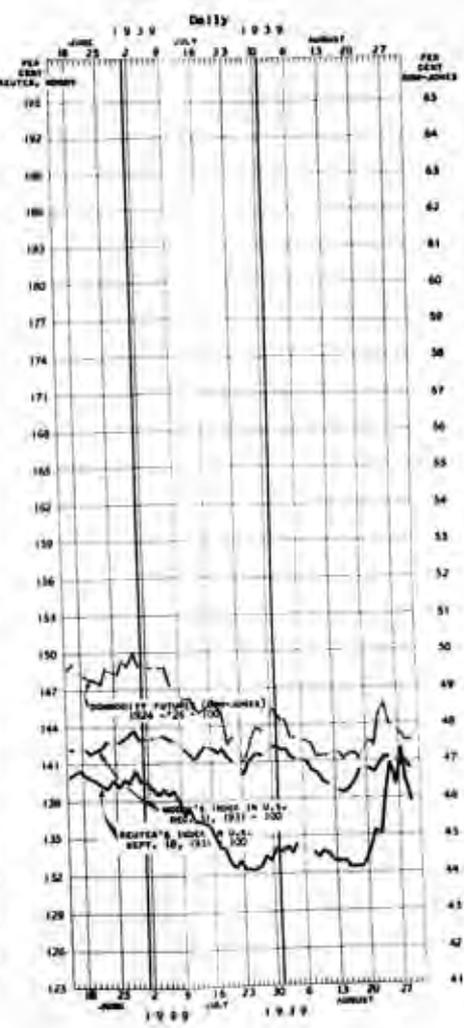
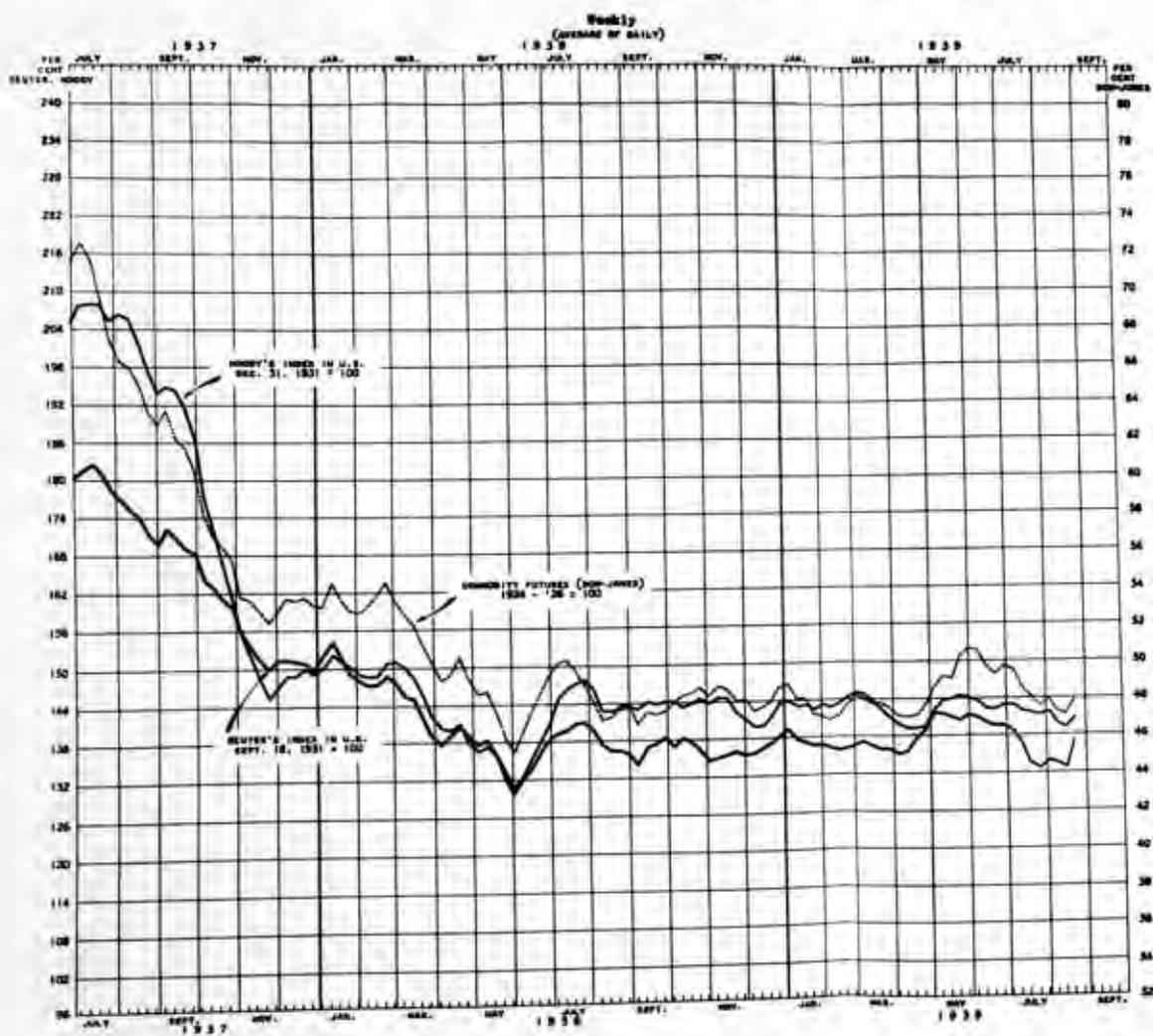
Chart 2 25  
 Confidential

Regraded Unclassified

**STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS**  
Expressed in Percent of Capacity

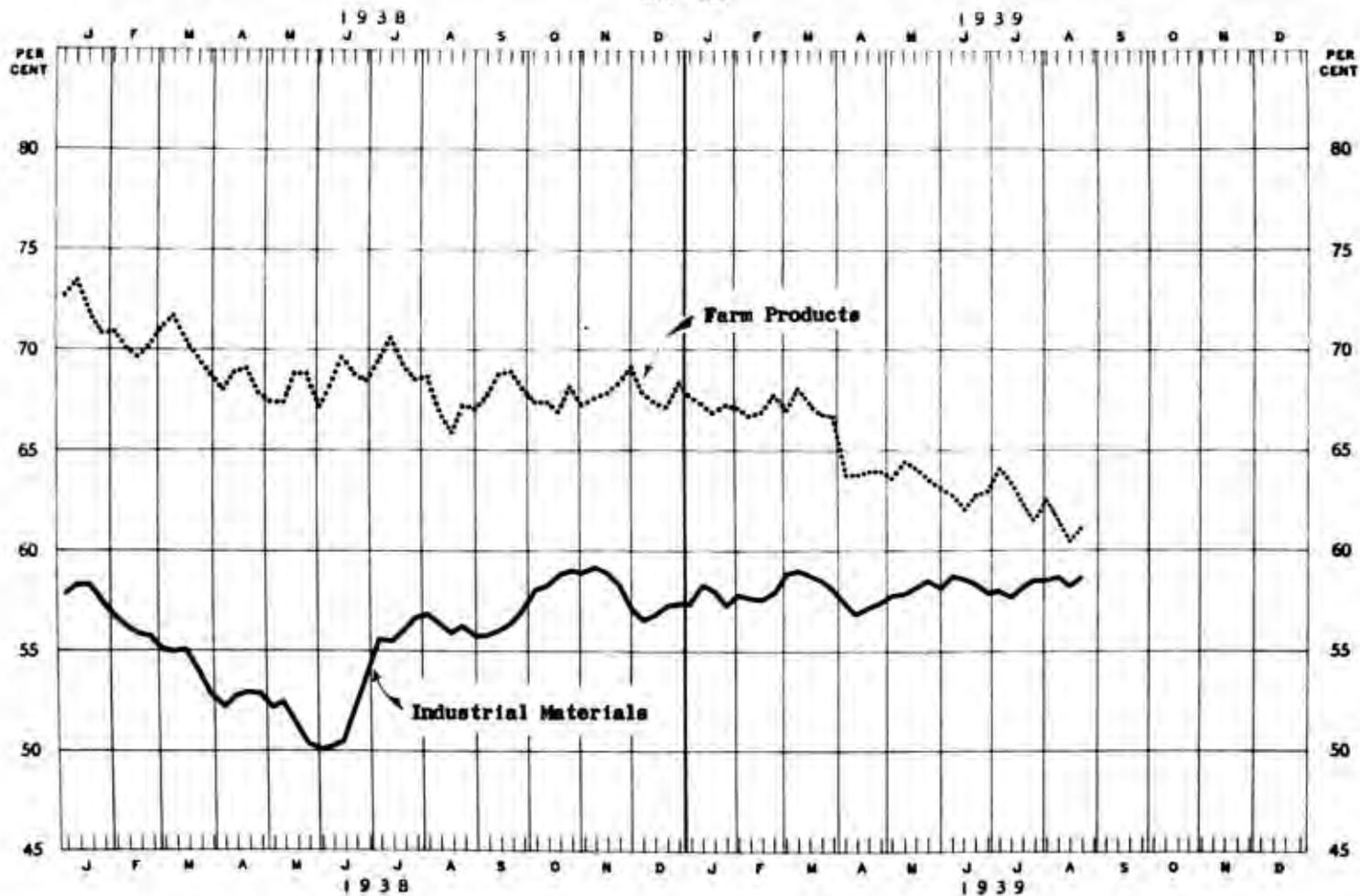


COMMODITY PRICE INDEXES IN U.S. AND U.K.



PRICES OF INDUSTRIAL MATERIALS AND FARM PRODUCTS

1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

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

P - 171 - A

Chart 4  
Confidential

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 31, 1939.

TO Mr. Hanes  
FROM Mr. Haas *BA*  
Subject: September Financing

We recommend -- unless there is a material change in the international situation -- that the September financing be omitted entirely. Our reasons for this view may be summarized as follows:

(1) The Treasury is under no necessity of conducting a financing operation at this time, unless market conditions appear favorable. The operation, if conducted, would be merely for the purpose of anticipating a note issue not due until December and adding to an already adequate working balance. There is no reason to do either of these things unless conditions are favorable. For sometime a large working balance has been maintained and maturing obligations anticipated three months in advance, in order to be prepared to skip a quarterly financing should a crisis or other emergency render such a step advisable. The emergency has now occurred, and it is time to reap the advantage of this foresight.

(A) As far as new money is concerned, the Treasury is well prepared to wait until December. Mr. Bell estimates that if no new money at all is raised between now and December the working balance will not fall below \$500 millions. If unforeseen developments should cause a change in this estimate, the balance could easily be maintained by bill issues.

(2) Omitting a new money financing at the present time would not throw an excessive burden upon future financing dates. It is estimated that the total amount of new money financing (excluding guaranteed issues) which the Treasury will have to do during the current fiscal year is between \$1.5 and \$2.0 billions, or an average of from \$500 to \$700 millions each during the remaining three quarters. This estimate may be subject to a considerable margin of error, but not enough to increase the amount of financing required

Mr. Hans - 2

during subsequent quarters beyond the probable absorptive capacity of the market. If the volume of bills should be increased, the amount of financing required at the regular quarter dates would, of course, be correspondingly reduced.

(3) Despite the fact that the net recession in the price of United States securities has been remarkably small, considering the gravity of the international crisis, the market has been very thin. It would, consequently, be very hazardous to price a new money issue. The smallness of the decline appears to have been due more to a lack of panicky liquidation than to the presence of important bids.

(4) A financing operation confined to an exchange offering for the December notes would avoid in part the difficulty of asking purchasers to make new commitments at this time, but has the special difficulty that, according to precedent, it would have to be held open two or three days with a correspondingly greater exposure to changes in the international situation than would be the case with a new money issue.

(5) The effect upon general financial sentiment of omitting a Treasury financing operation would probably be favorable rather than the reverse. It would demonstrate the strength of the Treasury position and its lack of necessity to resort to the money market, except at times convenient to it. It would also avoid the establishment of a baseline upon which new offerings of corporate securities might be measured. If, for example, the Treasury financing operation in the crisis period should be confined to refunding the December notes into new 2- or 3-year notes, the reaction of the corporate securities market might be "If that's the best that the Treasury can do, how can we expect to do any better?" In the absence of such a baseline, the corporate market might be expected to revive more rapidly with a real liquidation of the crisis.

(6) Finally, should the crisis develop instead into war and the war cause a general decline in Government bond prices, it is true that we may have to pay more later for money than we would at the present time. Under such circumstances, however, this interest saving would have been purchased at the expense of seeing a new Treasury issue fall immediately to a substantial discount. If the crisis is to develop into war, it would be better to do our borrowing later on the basis of the new facts after they become known. Borrowing at the present time is on a half-peace and half-war basis, and is likely to be unfair to either the Treasury or the purchasers, whichever eventually develops.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

September 1, 1939.

**Government Financing**

The members of the Board of Governors, present today, Governors Eccles, Szymosak, Davis and Draper, after carefully considering the question of the September financing in relation both to immediate and prospective requirements of the Government, as well as to the present and probable future condition of the investment market, desire to make the following suggestions:

1. It is not advisable to do any new financing at this time, because of the present uncertainty in the security markets, due to conditions abroad, and in view of the Treasury's large working balances, receipts from U. S. savings bonds, social security trust funds and the possibility of repaying the Treasury through outside financing of the \$400 millions owed to it by the Reconstruction Finance Corporation, the Commodity Credit Corporation and the U. S. Housing Authority. If, however, new financing should be decided upon, it would be preferable to offer short-term rather than intermediate or long-term obligations.
2. If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations.
3. That consideration be given to the advisability of deferring until next week the question of refunding the December maturities.

Cash Financing.

On the basis of estimates received from the Treasury it is unnecessary to raise any new money at this time, thus avoiding a further increase in the public debt. Should a contingency arise at any time during the next year, however, making it difficult to refund or raise new money through the offering of intermediate or long-term securities, the situation could readily be met by issuance

- 2 -

of bills or other short-term obligations, taking advantage of the favorable conditions in the money market. As a result of developments over the past few years, excess reserves are now nearly \$5 billions and there is every reason to expect a continued growth. Bank deposits and currency are, likewise, at an all time high level. There is no prospect that either public or private demand for credit would materially reduce the unprecedentedly large volume of funds available at low interest rates for any probable amount of short-term financing.

Under these circumstances, it is considered desirable to avoid increasing the public debt for the purpose of carrying working balances greatly in excess of current requirements.

#### Short-Term Financing.

If it should be decided otherwise, however, it is felt that it would be preferable to offer short-term obligations and to increase the proportion of the Government's debt which is financed through such short-term obligations. This view is prompted not only by the conditions prevailing in the money market but also by longer range considerations of Government policy. Under present conditions, when the Government is pursuing a policy of deficit financing and of monetary ease, it would have the benefit of borrowing at very low rates on short-term obligations. Looking to the future, however, it may at some time become necessary to adopt a policy of restraint. Under boom conditions the problem would not be one of deficit financing but largely one of refunding Government obligations. Under certain conditions it might be advisable to apply restraint through increased interest rates. Long-term obligations, which had been issued when an opposite policy prevailed, would then undergo substantial depreciation. From the standpoint of averaging the cost of Government financing over periods of business cycles, a higher rate could well be paid in boom times when revenues would be large and deficit financing would no longer be necessary.

It is felt that the effects of wide fluctuations in interest rates which are inevitable when monetary policy changes from one of ease to one of restraint would be lessened by financing a larger proportion of the public debt in the short-term offerings at this stage.

(Note in Mr. Hanes' handwriting:)

On Sept. 1 - '39, This statement was read into the record by Harriner Eccles at the meeting in Sec. Morgenthau's office with the Open Market Committee -  
J. W. H.

*Sept Financing 28.77*

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE  
Friday, September 1, 1939

Press Service  
No. 18-59

Acting Secretary Hanes today issued the following statement:

We will not borrow any new money at this time. Secretary Morgenthau's policy of maintaining substantial cash balances at all times makes unnecessary any cash financing now. The question of refunding in advance the 1 3/8% notes maturing December 15 will not be considered finally until next Tuesday or Wednesday.

-000-

*Sept financing*

On Sept 1-'39, This statement was <sup>280</sup>  
read into the records

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

By *Warriner Eccles*  
at the meeting in  
*Sec. Morgenthau's*

September 1, 1939. *office with*  
*the open market*  
*Committee -*

Government Financing

*J.W.H.*

The members of the Board of Governors, present today, Governors Eccles, Szymczak, Davis and Draper, after carefully considering the question of the September financing in relation both to immediate and prospective requirements of the Government, as well as to the present and probable future condition of the investment market, desire to make the following suggestions:

1. It is not advisable to do any new financing at this time, because of the present uncertainty in the security markets, due to conditions abroad, and in view of the Treasury's large working balances, receipts from U. S. savings bonds, social security trust funds and the possibility of repaying the Treasury through outside financing of the \$400 millions owed to it by the Reconstruction Finance Corporation, the Commodity Credit Corporation and the U. S. Housing Authority. If, however, new financing should be decided upon, it would be preferable to offer short-term rather than intermediate or long-term obligations.
2. If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations.
3. That consideration be given to the advisability of deferring until next week the question of refunding the December maturities.

Cash Financing.

On the basis of estimates received from the Treasury it is unnecessary to raise any new money at this time, thus avoiding a further increase in the public debt. Should a contingency arise at any time during the next year, however, making it difficult to refund or raise new money through the offering of intermediate or long-term securities, the situation could readily be met by issuance

of bills or other short-term obligations, taking advantage of the favorable conditions in the money market. As a result of developments over the past few years, excess reserves are now nearly \$5 billions and there is every reason to expect a continued growth. Bank deposits and currency are, likewise, at an all time high level. There is no prospect that either public or private demand for credit would materially reduce the unprecedentedly large volume of funds available at low interest rates for any probable amount of short-term financing.

Under these circumstances, it is considered desirable to avoid increasing the public debt for the purpose of carrying working balances greatly in excess of current requirements.

Short-Term Financing.

If it should be decided otherwise, however, it is felt that it would be preferable to offer short-term obligations and to increase the proportion of the Government's debt which is financed through such short-term obligations. This view is prompted not only by the conditions prevailing in the money market but also by longer range considerations of Government policy. Under present conditions, when the Government is pursuing a policy of deficit financing and of monetary ease, it would have the benefit of borrowing at very low rates on short-term obligations. Looking to the future, however, it may at some time become necessary to adopt a policy of restraint. Under boom conditions the problem would not be one of deficit financing but largely one of refunding Government obligations. Under certain conditions it might be advisable to apply restraint through increased interest rates. Long-term obligations, which had been issued when an opposite policy prevailed, would then undergo substantial depreciation. From the standpoint of averaging the cost of Government financing over periods of business cycles, a higher rate could well be paid in boom times when revenues would be large and deficit financing would no longer be necessary.

It is felt that the effects of wide fluctuations in interest rates which are inevitable when monetary policy changes from one of ease to one of restraint would be lessened by financing a larger proportion of the public debt in the short-term offerings at this stage.



THE SECRETARY OF THE TREASURY  
WASHINGTON

September 1, 1939

Sir:

You are hereby appointed a Special Assistant and Consulting Expert to the Secretary of the Treasury with headquarters at New York, New York. For such services as you may perform during the period of your appointment, which is not to extend beyond June 30, 1940, you will be paid the sum of \$1.00.

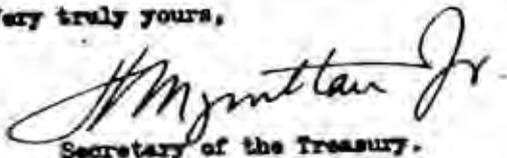
In connection with your employment as a Special Assistant and Consulting Expert, you are hereby authorized to make such travel between your post of duty at New York, New York, and Washington, D. C., and between any other points in the continental United States as may be necessary for the purpose of conducting official business for this Department.

In making the above-mentioned travel, the Government will pay your transportation expenses and allow you \$7.00 per diem in lieu of subsistence, such allowance for subsistence to be payable for all time you are in a travel status or while on duty in Washington, D. C.

Your compensation, transportation, and subsistence expenses will be paid from the Exchange Stabilization Fund.

A copy of this travel authorization should accompany each voucher making claim for expenses incurred thereunder.

Very truly yours,



Secretary of the Treasury.

Hon. W. Randolph Burgess,  
55 Wall Street,  
New York, New York



THE SECRETARY OF THE TREASURY  
WASHINGTON

September 1, 1939

Sir:

You are hereby appointed a Special Assistant and Consulting Expert to the Secretary of the Treasury with headquarters at Princeton, New Jersey. For such services as you may perform during the period of your appointment, which is not to extend beyond June 30, 1940, you will be paid the sum of \$1.00.

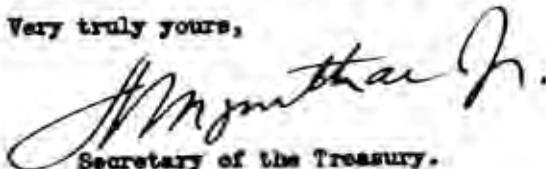
In connection with your employment as a Special Assistant and Consulting Expert, you are hereby authorized to make such travel between your post of duty at Princeton, New Jersey, and Washington, D. C., and between any other points in the continental United States as may be necessary for the purpose of conducting official business for this Department.

In making the above-mentioned travel, the Government will pay your transportation expenses and allow you \$7.00 per diem in lieu of subsistence, such allowance for subsistence to be payable for all time you are in a travel status or while on duty in Washington, D. C.

Your compensation, transportation, and subsistence expenses will be paid from the Exchange Stabilization Fund.

A copy of this travel authorization should accompany each voucher making claim for expenses incurred thereunder.

Very truly yours,



Secretary of the Treasury.

Dr. Winfield W. Riefler,  
Princeton,  
New Jersey.



## TREASURY DEPARTMENT

WASHINGTON

Sir:

You are hereby appointed a Special Assistant and Consulting Expert to the Secretary of the Treasury with respect to matters pertaining to national banks, with headquarters at St. Louis, Missouri. For such services as you may perform during the period of your appointment, which is not to extend beyond June 30, 1940, you will be paid the sum of \$1.00.

In connection with your employment as a Special Assistant and Consulting Expert, you are hereby authorized to make such travel between your post of duty at St. Louis, Missouri and Washington, D. C., and between any other points in the continental United States as may be necessary for the purpose of conducting official business for this Department.

In making the above-mentioned travel, the Government will pay your actual transportation expenses and will also pay your actual subsistence expenses for all time you are in a travel status or while on duty in Washington, D. C. Your compensation, transportation and subsistence expenses will be paid from "Salaries and Expenses, National Bank Examiners, Comptroller of the Currency".

A copy of this travel authorization should accompany each voucher making claim for expenses incurred thereunder.

Very truly yours,

Handwritten signature of H. M. Nathan Jr. in cursive script.  
Secretary of the Treasury.

Hon. Tom E. Smith,  
Office of the Secretary of the Treasury,  
Washington, D. C.



TREASURY DEPARTMENT  
COMPTROLLER OF THE CURRENCY  
WASHINGTON

September 1, 1939

ADDRESS REPLY TO  
COMPTROLLER OF THE CURRENCY"

Mr. Tom K. Smith  
Special Advisor to the Secretary  
Treasury Department  
Washington, D. C.

Dear Mr. Smith:

You are hereby authorized and directed during the fiscal year 1940 or any portion thereof, to perform official travel, including travel by air lines when, in your opinion, the interests of the service demand it. Such air travel is hereby approved and administratively determined to be a necessity for the expedient and proper conduct of official business.

Reimbursement for all travel and subsistence expenses while on official business will be made on an actual expense basis and payment of same from "Salaries and Expenses, National Bank Examiners Special Fund", is hereby authorized.

Yours very truly,

C. B. Upham  
Acting Comptroller of the Currency

APPROVED: *September 1, 1939.*

W. N. Thompson  
~~Acting~~ Administrative Assistant  
to the Secretary



THE SECRETARY OF THE TREASURY  
WASHINGTON

September 1, 1939

Sir:

You are hereby appointed a Special Assistant and Consulting Expert to the Secretary of the Treasury with headquarters at Princeton, New Jersey. For such services as you may perform during the period of your appointment, which is not to extend beyond June 30, 1940, you will be paid the sum of \$1.00.

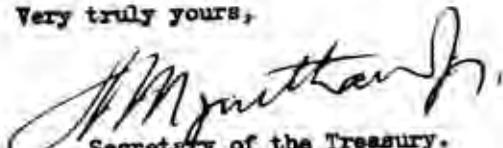
In connection with your employment as a Special Assistant and Consulting Expert, you are hereby authorized to make such travel between your post of duty at Princeton, New Jersey, and Washington, D. C., and between any other points in the continental United States as may be necessary for the purpose of conducting official business for this Department.

In making the above-mentioned travel, the Government will pay your transportation expenses and allow you \$7.00 per diem in lieu of subsistence, such allowance for subsistence to be payable for all time you are in a travel status or while on duty in Washington, D. C.

Your compensation, transportation, and subsistence expenses will be paid from the Exchange Stabilization Fund.

A copy of this travel authorization should accompany each voucher making claim for expenses incurred thereunder.

Very truly yours,

  
Secretary of the Treasury.

Hon. Walter W. Stewart,  
Princeton,  
New Jersey.

PAP

GRAY

RIO DE JANEIRO

Dated September 1, 1939

Rec'd 11:30 a.m.

Secretary of State

Washington

281, September 1, noon.

The bank of Brazil has just declared a bank holiday for today, Saturday and Monday. All banks are now closed.

CAFFERY

DDM

September 1, 1939

P  
12:22 A. M.

Conversation between Mr. Sproul of the Federal Reserve in New York and Under Secretary Hanes and also Mr. D. W. Bell -

- Bell: Just wondered what the situation is.
- S: Going along about the same. Offerings not quite so heavy at noon hour. In addition to cleaning out dealers we have bought \$36 million, a total of \$86 million. Long bonds off 5/8's from last night's close; long notes 1/4; short notes 1/8 off and we are still getting offerings, but still offerings from small banks, small institutions and individuals - no big selling that we are seeing.
- Bell: Even these have dried up some, haven't they?
- S: Diminished a little. Think we are getting a little this afternoon.
- Bell: Prepared to drop 1/8? Any criticism from the New York banks?
- S: No, we haven't had. We have one - <sup>I</sup> he got in touch with him and told him that we were the only buyers in the market.
- Bell: Announcing on this financing - do you think that we ought to announce that there will be no cash financing - do you think that would express the sentiment in the market?
- S: I do, and it would clear up another point about which there might be some doubt. They would know pretty well how things stood and what they would have to do in the next few days.
- Bell: That doesn't necessarily go for the December notes.
- S: Refinancing?
- Bell: Suppose cash financing is scrapped, but December note is put off until Tuesday?
- S: I don't think there is any need to put that out - let them wait until you have finally decided on the other before you say anything.

9-1-39 - 12:22 P.M.

Conversation between Sproul, Bell, and Hanescontinued

36

Bell: Having had a meeting and saying nothing - how will that be interpreted by the Press?

S: Interpreted to the effect that you are making no statement until you learn what the developments are over the week-end.

Bell: No unfavorable effects on the market?

S: I don't think so.

Bell: If you were prepared to say that -

S: By saying there will be no cash to pay in the refunding will create some doubt rather than ~~cash~~ <sup>cash</sup> given.

Hanes: All right, that is about what we want.

Bell: Yes, Allen.

CE

September 1, 1939.

## MEMORANDUM TO THE FILES;

Conversation between Mr. Gordon Rentachler of the National City Bank in New York and Mr. Hanes. Time 10:22.

Rentachler: I just wanted to check with you and see what was going on, if anything.

Hanes: All the markets seem to be in good shape.

Rentachler: I think they are doing a perfectly good job. I imagine all they can do is retreat in orderly fashion. The country has an idea - It is a long week-end. Between now and Tuesday morning they will have a chance to think. We picked up only a million dollars worth of things yesterday. The Federal is doing a pretty good job. Their bids apparently are in all along the line, so there is really no reason for us to try to supply any buying power when it is in that shape. Whole thing in pretty orderly fashion as far as the Government is concerned. - There is a great deal of buying power available when these corporates get to where people think they are right. If we can get to a return that looks like it is good, we have got a couple of funds in a position to spend money - individuals who are looking for corporates. They will use that money to buy corporates if they become attractive. You see, the long-time telephone  $3\frac{3}{4}$  yesterday broke par. That is 7 points off. Three and a quarter telephone the Government on a 262 basis even with tax involved is attractive. There were some pretty wide open breaks yesterday. Just for yourself until it comes out in the city, we got the Comptroller here who has some money in the sinking fund, and I think it is smart for him to spend a few dollars as he goes along. City issues under par gives him a great opportunity. Dropped from 98 to 91. That is just a bargain for him, but I think that the rest of the municipal market, there is not over about \$20,000,000 kicking around in week-ends. At these prices it looks to me like it is not out of hand and it is not bad and it ought not to be fooled with.

Hanes: I think the Government market ought to be allowed to get down to where it won't be attractive to switch out of the Governments into the corporates.

Rentachler: Exactly right. It should be allowed to take its own level.

Hanes: Thank you, Gordon, ever so much. Henry probably won't get back before Monday.

Rentachler: We don't see anything else here. Of course, our news from the other side is just unbelievable. I don't know what this whole thing is about.

- 2 -

anes: We are just as much confused as everybody else. There is nobody here who has anything except what is on the tickers and the radio. Nobody knows what France or Great Britain are going to do. They have issued ultimatums to Germany, and Germany hasn't made a reply. I see that the French say that if Germany will stop fighting there is still a chance to patch the thing up. That sounds like weakness.

entschler: The exchanges stayed absolutely firm this morning. Wouldn't indicate anything. If anything turns up let me know.

anes: All right, I will.

lg

Memorandum to the files:

Conversation of Mr. Smees with Dr. Robert Feis of the State Department on September 1, 1939 at 5:28 to 5:30 a. m.

I am much obliged to you for trying to smoothen me this morning. The telephone was off or I would have gotten your message sooner.

Well, it looks as though it were here, John. All reports so far primarily from Paris - fighting actually began which confirms the tenor of Hitler's speech.

No declaration of war!

No. British Cabinet in session now - Parliament later.

(had to leave telephone here for minute.)

said he would be willing to go to the front-lines - isn't that marvelous! (meaning Hitler). The Secretary has asked me what you had covering these aspects. Those ideas was to hold over until we saw how it went as to securities exchanges, foreign exchanges, etc. Just wait - be guided by developments. As far as we can tell - President will hold up admirability proclamation three or four days, and others. (Also said something here re Customs Inspectors).

I judged ~~mezzano~~ he would hold it up from what he said yesterday.

How many inspectors do you have?

About 38 I believe.

Hard to keep it quiet or confidential if it gets in that many heads. Could you pick out five or six from that number - important ones? Think 38 too many.

Sure.

Ray New York, Boston, Baltimore, San Francisco, for instance.

That's what we will do.

Anything you have for us?

Do what we can here - getting to that. Before we do anything, we're supposed to come back to the Committee - that your understanding?

Oh, of course.

Will call you in any event.

And if there is anything we can do for you, please just let us know.

That's grand.

Sorry last night's meeting had such a sad sequel. Didn't Arthur Kreek - as I not correct in remembering last thing he said was there wouldn't be a war?

Yes, he has been saying that all along. Even mentioned it in his column once or twice.

Well, O. K. Wait - we're getting more news now --- never mind, it's nothing, Johnnie.

O. K. thanks.

\*End\*

Original and two carbon copies made.  
(Carbon paper then burned)

FLO

*To Secy*

September 1, 1939.

41

**MEMORANDUM TO THE FILES:**

Conversation between Mr. Sproul, Federal Reserve Bank of New York, Mr. D. W. Bell, and Mr. Hanes. Time 10:12 to 10:15.

ll: John Hanes on too. We just want to know what the situation is.

Sproul: We are getting scattered small selling from all around the country, but no big lots coming in. A one-eighth below last night's - Taking practically everything that is offered to us and we have only done about 16,000,000 so far.

ll: They are coming from out of town?

Sproul: Yes, they are coming from small banks here, some of the uptown banks, and out of town banks in various parts of the country, and small insurance companies. Some customers of banks.

ll: Any buying by New York banks?

Sproul: No, there hasn't been yet. We are practically the only buyers. I have only talked to the market. I haven't talked to any of the banks and I don't think willing and ready to step in at these prices, but I think they would be if prices slipped off.

Hanes: Don't see anything unusual in the markets.

Sproul: Market not coming at me too fast. So far we are able to take what's coming at us and keep steady.

ll: No faster - Are you inclined to hold at these prices?

Sproul: Yes, we are inclined to hold at these prices if -

ll: What would it have to do if prices slip off?

Hanes: I think that is all right.

Sproul: Volume get too heavy, slip down another eighth, but with this volume we are holding steady. I will keep you posted if I get anything special.

lg

original and 2 carbons made.

September 1, 1939.

## MEMORANDUM TO THE FILES:

Conversation between Colonel Johnson of Commerce and Mr. Hanes. Time 10:16 to 10:18.

Johnson: I heard Gaston was with you. I got a letter dated the thirtieth from William Jennings Bryan, Jr., Collector of Customs at Los Angeles.

Hanes: No, we have had nothing.

Johnson: He wants a telegraphic reply. It involves more than us. He wants to know whether we consider the Japanese as imminently faced by war. State said the other day they weren't ready yet to include the Japanese. Asks some other pertinent questions. Have conference to your convenience and have somebody from State there. He wants a telegraphic reply. We will send the letter over and let you be looking at it. I will send a copy to Gaston immediately. We will make it at your convenience as you get somebody from State over. This man wants to know what to do about the Japanese. A few days ago Berle said they weren't ready yet to include the Japanese.

lg

1 original and 2 carbons made.

September 1, 1939.

## MEMORANDUM TO THE FILES:

Conversation between Mr. Jerome Frank, Chairman, SED, and Mr. Hanes. Time 10:26 to 10:27.

Frank: Hello, John. George Harrison called me yesterday and told me committee was formed solely for purpose - and transmit to banks. More particularly the Fed was concerned with quotations of the Government bond market. He said they had no intention of doing anything that would in any way enter the province of the SO. I understand(?) he is in Washington today and I wonder, you might suggest to him that he confirm that to me some way in writing.

Hanes: He will be here to an open market committee meeting on the bond question. Why don't I just tell him to call you up when he comes? You going to be in?

lg

1 original and 2 carbons made.

September 1, 1938.

## MEMORANDUM TO THE FILES:

Conversation between Governor Harrison, Federal Reserve Bank, New York, and Mr. Hanes. Governor Harrison talked from Board Room at Federal Reserve, Washington. Time 10:29 to 10:31.

- Hanes: It looks like this Government bond market is getting pretty bad because they are throwing this thing at you a mile a minute.
- Harrison: We just reduced the rate. We reduced it one thirty-second only. We will reduce it another thirty-second if it gets too heavy.
- Hanes: We may have held it a little (?) too long as it was.
- Harrison: We took 2,000,000 over the board and 73 over the counter. He's reduced the rate just about ten minutes ago.
- Hanes: Danny and I feel that the thing to do is to be alert and let it go down a little.
- Harrison: Do you think we ought to reduce it more than a thirty-second right away?
- Hanes: - I would go at it fairly -
- Harrison: Sproul doesn't have to come back and get our approval every time he reduces the rate, but I want it to go down by thirty-seconds, though.

lg

September 1, 1939.

## MEMORANDUM TO THE FILES;

Conversation between Mr. Sproul, Federal Reserve Bank of New York, and Mr. James,  
Time 10:32 to 10:35. /and Mr. Bell.

Sproul: Offerings are picking up. All we have done now, we took out the dealers and it looks as if that will involve about 50,000,000. What we have bought along the board and over the counter is another 20,000,000 so far, making a total of 70,000,000. Volume all off, picking up. The word we get from the banks is they are standing by, and if prices go down the big banks may be ready to step in, but not while the market's held up. I think we will have to begin feeling our way down to begin looking where we will get some natural support. Go at it very slowly.

James: We called Harrison, and he agrees. I understood you dropped about one thirty-second.

Sproul: I think we are going to have to drop more than a thirty-second because - they are not really naming prices, and I think we had better drop a quarter.

James: George Harrison told us that he would like to have it go down by thirty-seconds, but I guess in this case - He said you had authority to act and not to be calling him to make a change in the price.

Bell: Is it right you have 50 you took over from dealers and 20,000,000 over the counter, which clears it up coming in at volume?

Sproul: The volume is beginning to pick up.

James: You think the big banks will come in if the rate is left if the price gets a little lower?

Bell: I agree with that.

James: Of course.

16

original and 2 carbons made.

September 1, 1939.

## MEMORANDUM TO THE FILES:

Conversation between Mr. Sumner Welles of the State Department and Mr. Hanes.  
Time 11:35.

Hanes: The President just asked me to suggest to you that it might be a good idea if you diplomatically told the Cubans that when the Columbus docks there at 4:30 this afternoon to make a rather thorough search for any arms or ammunition she might have on board.

Welles: Yes, John. I will do it immediately.

lg

1 original and 2 carbons made.

CONFIDENTIAL

1 September, 1939.

MEMORANDUM FOR ASSISTANT SECRETARY GASTON:

Many messages appear in Italian traffic from members of the family of Italian officers on ships informing these officers of the family's departure from the city of residence but ending with the reassurance that matters are calm and tranquil.

German traffic continues to carry numerous messages in cryptographic form which can now be recognized as a war-time maritime cipher, the messages being identical in general composition and appearance.

Italian vessels receiving orders from the Italian radio station at Coltane during the last twenty-four hours are as follows:

ARGOLA (tanker)	-	Proceed all possible speed to Tenerife; repair
LAGONIA	-	Direct your course to Pernambuco; confirm
HUMIDIA	-	Proceed Naples instead of Genoa; confirm
MARIA ROSA	-	Proceed Ancona where await events; advise arrival Ancona; telegraph position
FULGOR	-	Proceed to Genoa maximum speed with precautions; confirm
ALENITA	-	Direct your course to Malaga where you will find instructions
ANTONIO LIMONELLI	-	Direct course to Genoa; confirm
CASSEL BIANCO	-	Telegraph probable date arrival Naples and if possibility of loading petroleum
VULGANIA	-	Give us date and place of embarkation
HASITTA	-	In case of general trouble, call at port of Spagnoli
PASAO	-	Use all possible speed

The following vessels cleared from United States ports yesterday, August 31st:

Italian	AMSTERDAM	from	Baltimore	for	Genoa
German	FORSLAND		Everett		Portland

CONFIDENTIALIOF 601  
1 September, 1939.

The following vessels were listed as being in United States ports on August 31st:

		<u>Arrival</u>
<u>In Norfolk:</u>		
Italian	IDA E. O.	Aug. 30
<u>In New York:</u>		
Italian	ROMA	Aug. 24
Italian	BIRMANIA	Aug. 26
<u>In Boston:</u>		
Italian	MONSIOIA	Aug. 27
<u>In St. Thomas:</u>		
Italian	VIGOR	Aug. 31
<u>In Galveston:</u>		
Italian	LAURA O	Aug. 27
<u>In Houston:</u>		
German	REHIN	Aug. 29
German	HAMELN	Aug. 25
<u>In Baltimore:</u>		
Italian	ADA O	Aug. 29
Italian	MARIA O	Aug. 29
<u>In San Francisco:</u>		
Italian	LENN	Aug. 25
<u>In New Orleans:</u>		
Italian	IDA	Aug. 22
Italian	MONFIGOR	Aug. 25

CONFIDENTIALICF 601  
1 September, 1939.

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

German	HAVELAND	Los Angeles
German	FRIEDLAND	New York
German	FERTOLA	Houston
German	OSHWALD	Baltimore
Italian	FELLA	Los Angeles

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

September 1, 1939

To: Lt. F. E. Pollie  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hanes

Will you please send the following message in CODE  
to Secretary Morgenthau:

Answer your message. Will be in constant communication with  
you from now on on all important matters where time permits.

Will you please send the following message - PLAIN -  
to Secretary Morgenthau:

How much general news are you able to pick up and how complete  
do you wish reports from us on general news items? London Stock  
Exchange closed today. Have not heard but assume same will be true  
in other foreign markets. General feeling is that it will not be  
necessary to close our markets. Announced from London that not  
officially at war yet. However, radio report this morning says that  
Polish-English-French alliance has been invoked by Poland and  
recognised by high British authorities. Hitler announced over radio  
before Reichstag that he would go to the front and named his successors  
in case of his death - (1) Goering, (2) Rudolph Hess, (3) Supreme War  
Council who would choose leader from amongst their number. The French  
Government declared state of seige throughout France and Algeria and orders  
general mobilization. Daladier said quote it started, we have done everything  
we could to avoid it unquote.

*For Sec'y*

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE  
Friday, September 1, 1939

Press Service  
No. 18-59

Acting Secretary Hanes today issued the following statement:

We will not borrow any new money at this time. Secretary Morgenthau's policy of maintaining substantial cash balances at all times makes unnecessary any cash financing now. The question of refunding in advance the 1 3/8% notes maturing December 15 will not be considered finally until next Tuesday or Wednesday.

-oOo-

For file

September 1, 1939.

MEMORANDUM

TO: Acting Secretary Hanes

FROM: Mr. Schwartz (C)

SUBJECT: President's Press Conference, Friday, September 1, 10:30 a.m.

WAR - In reply to the direct question "Can we stay out?", President Roosevelt said today, "I not only sincerely hope so but I believe we can and that every effort will be made by the Administration so to do." At the request of the correspondents, he said they might quote him directly.

The President announced the resignation of Hugh Wilson as Ambassador to Germany, said that the resignation had been accepted and that Wilson had been assigned to special duty in the State Department. He said he couldn't answer a question as to whether he had anyone in mind to fill Wilson's place and passed over a question as to the nature of Wilson's new duties.

DOMESTIC - As to local questions such as possible special session of Congress and application of neutrality legislation, the President said discussion of these must await developments on the other side today and tomorrow, that happenings overseas would be important factors in considering American angle. Asked whether he would convene Congress, he said he did not know when Congress would meet but that it would be sometime between now and January 2nd. Asked if any changes in the Bloom Neutrality Bill are contemplated, the President said that he had heard of nothing along that line in the last twenty-four hours. With respect to his meeting this morning with Secretary Hull, the President answered that they had studied the usual batch of dispatches but that now they were coming in every five minutes instead of every ten minutes.

PRESS - The President asked the full cooperation of the Press throughout the country in "sticking as closely as possible" to facts, which he said would be in the best interests of our own nation and civilization. He said he hoped that there won't be unsubstantiated rumors sent out from here or elsewhere. He reminded the correspondents that it is a simple thing to check with the State Department or White House. He objected to a reported "general order for all United States merchantmen to return to their home ports." He said that he hoped American reporting would stick to the facts because in the long run the people get the facts anyway and that he believes strongly in the common sense of the American people.

FOREIGN SERVICE - The President opened the conference by saying that he thought "a good many of us had spent a somewhat sleepless night," that he had very great praise for our diplomatic service which had kept this Government advised as thoroughly as was any outside nation. He said that Ambassador Biddle at Warsaw had gotten through to Bullitt in Paris at 2:35 a.m. our time on a poor connection and that Bullitt had begun to connect with Washington at 2:40 and was actually in conversation at 2:50. He said that Bill Hassett had picked up France on the short-wave radio and thus obtained their information. The President was in shirtsleeves and was surrounded, aside from the usual participants, by Secretary Hull and John and Anne Clark Roosevelt.

-oOo-

*For Sec'y*

54

September 1, 1939

MEMORANDUM TO THE PRESIDENT:

The Bremen took aboard in New York 5,531 tons, or 35,953 barrels of fuel oil. She had asked and had been granted permission to take 50,000 barrels. I am informed that the amount she took is a comfortably adequate supply for a high speed run to Bremerhaven. On her former trip to Hamburg she used 880 tons per day to develop 28.5 knots. A normal fuel supply for an eastward crossing is 4700 to 4900 tons. She has bunker capacity for 6,616 tons or between 42,000 and 43,000 barrels. So far as can be judged from the bunker data, therefore, the Master of the Bremen planned merely a high speed run to a home port.

(Signed) John W. Hanes

September 1, 1939

1:45 P.M.

Mr. Hazes

W. H. Hadley

#### GOVERNMENT BOND MARKET

The government market opened easier and Federal Reserve established bids  $1/8$ th under yesterday's close. Moving the bids progressively downward as the day moved forward, prices are now down  $7/8$ ths of a point for Treasury bonds and guaranteed bonds. Treasury notes and guaranteed notes are down 4 to  $5/32$ nds. Volume in the morning was quite heavy in small lots, about \$30 million purchases absorbed by the Federal Reserve by 12:30. During the last two hours further purchases of about \$13 million have been made for a total so far today of \$43 million. This is exclusive of about \$50 million dealers' holdings which the Federal took over first thing in the morning. The activity has slackened considerably this afternoon.

The offerings came entirely from outside of New York sources and were mostly in small lots, maximum being about \$1 or \$2 million. Prices are now at about the same level attained Thursday, August 31, which was the recent low, six longest bonds averaging  $105\ 3/4$  at that time and now about  $105\ 7/8$ . This is four points above the Munich low and four points below the all-time high.

#### CORPORATE BOND MARKET

Corporate bond market was off substantially. High grade issues showed losses of 1 to 3 points on nominal quotations but were not very active. Second grade issues were moderately active, moving down 1 to 4 points. Recent corporate offerings have shown declines of as much as 5 and 6 points.

#### STOCK MARKET

In the stock market losses amounted to as much as 4 points in the morning. There was a slight recovery but by 2:00 o'clock the lows of the day were attained, with an average decline of  $5\ 1/2$  points. Since that time, however, an unusually sharp rise, led by coppers and steel, has taken place in the market and reports are now that the market stands about unchanged from last night's close and volume was considerable. At 2:30 some steel and copper shares were up as much as 3 points from yesterday. At 2:00 o'clock volume totaled 1,200,000 shares compared with 330,000 shares at 2:00 yesterday.

OFFICE CORRESPONDENCE

DATE September 1, 1939.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 10 o'clock this morning to get his instructions as to the gold coming in on the Queen Mary. I explained that the inrush of gold over the weekend was on such a scale that we had to make preparations before hand. The Queen Mary, Bolton said, might be diverted en route but when she came in we were to sell the gold; likewise the \$12,000,000 on the Samaria.

I asked whether he had received our three cables of last night and it appeared that they had all safely gotten there. They had made arrangements, Bolton continued, by which their cables could go out in code and they likewise could receive cables in code. I informed him that we had obtained assurance from Western Union here that they would accept our cables to the Bank of England in code also.

Bolton referred to a cable he had sent us today to make a payment of \$20,000 to the British Commercial Counsellor in Washington who had his account at Riggs National Bank. Could I be sure that the payment was made today? I asked him to give me the number and the test, which he said was 880 for the number and 316 for the test. (He could not give me the name of the British Commercial Counsellor in Washington and I have since asked Lochhead in Washington to try and check up whether this payment was in order.) I told Bolton I would do the best I could in the matter.

I asked him to please arrange to let me have automatically two copies of all published decrees and instructions on foreign exchange

FEDERAL RESERVE BANK  
OF NEW YORK

57

OFFICE CORRESPONDENCE

DATE September 1, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

2

dealings, securities, etc. We were frequently asked for details and found it difficult to answer such questions. Bolton promised that that would be done.

I informed him of the formation here of a foreign exchange committee similar to that in London and of its purpose.

I asked whether I could bank on reaching him on the telephone whenever I thought it necessary and he replied that I could get through but would find it simpler if I asked for him, Hawker, Tong or Siepmann by name. In that case there would be no difficulty. He referred to the Cabinet meeting now on, the summoning of Parliament for 6 o'clock and to the recent events in Poland but had nothing that had not appeared on the ticker. I inquired whether he could tell me anything as to what the present status was of sales by Britishers of American securities. Bolton replied that there was nothing he could say. So far they had permitted about \$1,000,000. I asked whether these transactions were likely to be on a large scale and he replied "No".

LWK:KW

CJ

PLAIN

BERLIN

Dated September 1, 1939

Rec'd 2:20 p.m.

Secretary of State,  
Washington.

993, First.

Inquiry at the Reichsbank elicited the information that the German stock markets were open as usual today without restriction. It was stated that no restrictions of any kind are in force in the field of banking. Repeat to Treasury.

KIRK

DDM

**PARTIAL PARAPHRASE OF TELEGRAM RECEIVED**

**FROM:** American Embassy, Berlin, Germany

**DATE:** September 1, 1939, 8 p.m.

**NO.:** 998

According to good authority there has been no run on German savings banks. The present rate of withdrawal is stated to be less than during September 1938 when withdrawals exceeded deposits in savings banks by 156 million marks.

One point of particular interest is that the main withdrawals from savings accounts were in the western part of Germany. There was not much call on the savings banks in Berlin and central Germany, and it is reported that deposits exceed withdrawals in East Prussia. According to reports reaching us, individual savings banks have taken about 350,000,000 marks from their balances which they carry with the provincial savings bank clearing institutions (which usually total about four billion marks) not because this figure represents the net withdrawals, but so that the banks will be in a position to take care of a run of that size in case it should take place. The local banks have been informed by the savings bank central organization of restrictive measures which are to be applied in case of development of a sudden run of panic size.

**KIRK.**

**END SECTIONS ONE AND TWO.**

PAP

PLAIN.

BERLIN

Dated September 1, 1939

Rec'd 4:50 p.m.

Secretary of State  
Washington

RUSH

998, September 1, 10 p.m. (SECTION THREE)

While no formal measures of moratorium effect have yet been applied on commercial bank deposits, well informed bankers tell me that there has been a tendency on the part of commercial and industrial firms to withdraw funds in order not to be "caught short" should a moratorium be decreed. The banks, I am informed, have so far met this situation successfully merely by "persuading" their clients to limit their withdrawals to "normal" amounts.

That there has been a considerable increase in currency circulation as would be expected in view of the intensified mobilization measures is indicated by the fact that in some places 5 mark notes of the 1926 Rentenmark issues are re-appearing in circulation after an absence of several years during which only silver has been used for this denomination.

REPEAT TO TREASURY AS NUMBER 58 FROM HEATH.

KIRK

ALC

AC

PLAIN

London

Dated September 1, 1939

Rec'd 7 p.m.

Secretary of State

Washington

1367, September 1, midnight.

STRICTLY CONFIDENTIAL.

FOR THE ACTING SECRETARY OF THE TREASURY FROM BUTTERWORTH.

1. Parliament is tonight passing a bill respecting the exchange equalization account the substantive provisions of which is to increase its capital to an unlimited amount and widen its powers; and a bill authorizing borrowing of £500,000,000 at not more than 5%.

2. The British Treasury states that it is preparing to issue a number of financial regulations and Treasury orders including those war measures which I dispatched to Washington last March. These will be in effect before war is declared during the weekend and consequently the Treasury hopes and anticipates that the banks will be able to open and carry on on Monday but there is still some discussion taking place between the British Treasury and the Bank of England as to whether a moratorium for Monday may not be necessary. Discussions are also still taking place as to what the rate for sterling will be when the official exchange

- 2 - #1367, September 1, midnight, from London  
exchange controls come into operation.  
(END SECTION ONE).

KENNEDY

HTM

AC

GRAY

London

Dated September 1, 1939

Rec'd 7:07 p.m.

Secretary of State

Washington

1367, September 1. (SECTION TWO).

Three. I am informed in the strictest confidence that one of the Treasury orders which will affect the transfer from London of foreign balances owned by non-residents will be so framed as to discriminate in favor of Americans, that is, if American owners of balances in England apply through their bank to have these transferred in dollars, the Bank of England will, at least for the time being, authorize such transfers. In case of France, French citizens with London balances will also be given the option of keeping them here or transferring them into francs at the official rate. As regards other countries, although the order will be the same, namely that application be made to the Bank of England, the practice will be to "wait and see". In discussing this with the British Treasury they emphasized particularly the confidential character of this information and the fact that if it got out that Americans were being unduly favored they would be placed in an awkward position.

Four

- 2 - #1367, September 1, (SECTION TWO) from London

Four. As previously reported the Treasury at the moment plans to attempt to stay in London. It has alternate plans for moving elsewhere, the destination of which is still being kept a secret even from its highest officials.

If and when the move comes I shall advise you.  
(END OF MESSAGE).

KENNEDY

PEG

REB

GRAY

Paris

Dated September 1, 1939

Rec'd 5:22 p. m.

Secretary of State,

Washington.

1712, September 1, 7 p. m. (SECTION ONE)

FOR THE TREASURY.

The Bourse opened as usual but with the news that general mobilization had been ordered trading practically came to a standstill. Securities showed sizeable losses but not as much as might have been expected. Rentes were down two francs on the average. We understand that the Bourse is in a very sound technical position and is pretty well liquidated with short interest amounting to but 300,000,000 francs and the long position totaling around 700,000,000 francs. Yesterday's fortnightly liquidation passed off very easily. Most of the exchange trading personnel under the age of 48 have been mobilized and at the Bourse's next normal opening on Monday there will be few familiar faces present.

BULLITT

CSB

PARTIAL PARAPHRASE OF SECTION TWO,  
TELEGRAM NO. 1712, SEPTEMBER 1, 1939,  
FROM AMERICAN EMBASSY, PARIS, FRANCE.

Quotations this afternoon are purely nominal with banks quoting the dollar between 41.50 and 42 and the pound (sterling) at 175.75. There was some increase in currency demands this afternoon but not on a serious scale.

We were informed by Rueff that the fund had a good day. The financial situation is quite satisfactory from the technical point of view. Positively no restrictive measures are under contemplation for the present.

BULLITT

EA:MSB

61C

lw

GRAY

Paris

Dated September 1, 1939

Rec'd 5:20 p.m.

Secretary of State

Washington

1712, September 1, 7 p.m. (SECTION THREE)

A decree published in the JOURNAL OFFICIAL of today authorizes the Minister of Finance "to convert Treasury loans issued in foreign markets into loans or issues expressed in French francs". It is understood that this proposed operation relates to the Treasury issues made last May through Mendelssohn and that they will be converted into shorter issues to facilitate their orderly liquidation by present Mendelssohn creditors.

The admirable calm which the French have so far maintained has continued and there is not the least sign of panic or hysteria. Parliament meets tomorrow afternoon to take the decisive step. In spite of the state of siege declared this noon we are able to use the telephone for local calls with a minimum of delay or interference and banks have been able to telephone New York.

(END OF MESSAGE)

BULLITT

HPD:NPL

612

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 1, 1939, noon

NO: 1697

FOR THE TREASURY.

Very little business was done in the way of exchange transactions this morning and there were no signs of panic though war developments were known by 9 a.m. The pound opened here at 175.75, United States dollar at 42.75 and the pound dollar cross rate at 4.15. New transactions ranged all the way from 4.03 to 4.25.

From the Bank of France we learned that a few dollars at 4.20 were gained by the British control. In Paris the Bank was a seller of dollars to cover purchases from the United States for war needs.

The London bullion market was inactive and will be closed tomorrow. The Paris Pourse will open this afternoon as usual.

BULLITT.

EA:LWW

NC

PLAIN

LONDON

Dated September 1, 1939

Rec'd 10:45 a.m.

Secretary of State

Washington

1350, September 1, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

The city fatalistically awaits the zero hour and in the meantime is completing its evacuation and safety preparations. The dollar which opened at 4.27 has slithered down to 4.18 but there is only a small market. Nevertheless, the foreign exchange market is now being closed. . This is in consonance with other measures military and civil in anticipation of war time conditions.

KENNEDY

KLP

61F

NC

PLAIN

LONDON

Dated Sept. 1, 1939

Rec'd 6:50 a.m.

Secretary of State

Washington

1344, September 1, noon,

FOR TREASURY AND STATE FROM BUTTERWORTH.

At my request Bewley has written me regarding the regulation and Treasury order providing for registration of certain securities by British residents (my 1279 August 27 8 p.m.)

"The principal points which have since arisen which you might like to know are I think as follows:

Permits are given freely for transfers between residents in the United Kingdom.

Permission has been given for some sales abroad when the resulting foreign currency has been handed over to the Bank of England.

As regards residence of companies difficulties probably arise in individual cases but we are inclined to take the general line that residence is wherever the control is situated.

I have spoken to the Bank of England about the question of the definition of "residence" of individuals. The question of the legal definition of the word "residence"

is

NC -2- #1344 from London, September 1, 1939

is, as you know, a difficult one and the Bank have not committed themselves to a precise definition. As a rough test they are taking the question whether income tax is paid in this country as evidence of residence but this is not final and the question is a technical one which has to be decided in accordance with the facts of each case. I might perhaps add that as regards the making of a return it is, of course, the case that the making of such a return does not in any way prejudice decisions which may be taken later on as regards the actual acquisition of the securities.

In the case of E. G. unit trusts where the sub-units are denominated in sterling without an exchange option, then sterling sub-units are not affected by the order even though the underlying securities may be denominated in foreign currencies.

The regulation and order do not prevent free encashment of coupons and drawn bonds".

The manner in which the British monetary authorities interpret and administer 3 and 4 will obviously affect American interests. As regards 3 no doubt great difficulties will arise in determining where "the control is situated". As regards 4, not only will the definition of the word residence cause difficulties but cases will

arise

NC -3- #1344 from London, September 1, 1939

arise where, say, an individual who has been resident in his country for only a year or two being liable to turn over his life savings located in the United States.

Instructions in the premises will be appreciated.

The HERALD TRIBUNE report conveyed in your 738, August 31, 4 p.m., is incorrect. Individuals can obtain permission to pay off loans or cover positions but no general authority has been accorded brokers to take action.

It should be noted that the telegraph and mail censorship which came into effect last night can be employed effectively to enforce these and other British Treasury regulations.

KENNEDY

ALC

NC

GRAY

PARIS

Dated September 2, 1939

Rec'd 11 a.m.

Secretary of State

Washington

1727, September 2, 2 p.m.

FOR THE TREASURY.

Journal Official today publishes about twenty war time decrees. They include besides the order for general mobilization, the approval of conventions concluded between the state and the Bank of France and between the state and the Bank of Algeria the withdrawal from circulation of certain silver and nickel coins and measures concerning the provisioning of the nation in time of war.

Under the convention with the Bank of France -(which is dated September 29, 1938) - the latter agrees to make provisional advances to the Treasury up to a total of 25 billion francs against 3 months Treasury bills renewable until reimbursement of the said advances. (END SECTION ONE).

BULLITT

CSB

CSA

GRAY

PARIS

Dated September 2, 1939

Rec'd 11:18 a.m.

Secretary of State,  
Washington.

1727, September 2, 2 p.m., (SECTION TWO)

Under the convention with the Bank of Algeria (which is dated May 11, 1939) the latter agrees to make provisional advances to the government up to a maximum amount of one billion francs. This arrangement also provides for an increase of one billion francs in the note circulation of the Bank of Algeria bringing the total to 5,000,000,000.

The decree approving these two conventions also contains an important provision suspending the application of the first paragraph of Article 4 of the monetary law of June 25, 1928 which reads as follows:

"The Bank of France shall be obligated to keep a cash balance in gold bullion and coin equal to not less than 35% (35%) of the total sum of the bearer notes in circulation and the current credit accounts."

BULLITT

CSB

MJD

GRAY

Paris

Dated September 2, 1939.

Rec'd. 1:05 p. m.

Secretary of State,  
Washington.

1727, September 2, 2 p. m. (SECTION THREE).

A further decree authorizes the transfer of the seat of the Security and Commodity Exchanges and embodies other measures relating to negotiable securities. Whether this authorization utilized will of course depend on developments.

The principal Paris banks will remain open throughout the day but so far withdrawals have not been substantial.

Today again there has been very little trading in foreign exchange. In the transactions between banks (now operating with skeleton staffs) the pound has been quoted at 175.75, the dollar at 41.75 and the pound dollar cross rate at 4.22. There is of course no arbitrage business. The Bank of France is buying sterling at 175.60 and has acquired a small amount at that rate; its dollar rate is 41.75. Trading seems quiet in Belgium with the dollar quoted at 5.84. Switzerland

is

MJD -2- No. 1727, September 2, 2 p. m. (SECTION  
THREE) from PARIS.

is quoting the dollar bill at 4.46 and Holland at 1.88. Paris banks have been able to telephone those Continental centers but have found it difficult to communicate with London owing to pressure on existing lines for official communications. Civilian evacuation of the City of Paris continues in orderly fashion and the stations are crowded with patient families and their hastily collected belongings awaiting departure of the numerous extra trains.

BULLITT

HPD

MJD

GRAY

Paris

Dated September 2, 1939.

Rec'd. 12:25 p. m.

Secretary of State,  
Washington.

1727, September 2, 2 p. m. (SECTION FOUR).

AGENCE ECONOMIQUE ET FINANCIERE publishes a despatch from its New York correspondent this morning quoting Mr. Jones as stating, following a conference at the White house, that neither the Export-Import Bank nor the Reconstruction Finance Corporation are subject to the provisions of the Johnson Law; that "through the Export-Import Bank credits could be supplied for the export of merchandise to interested exporters but that he did not know when the Bank could, in case of war, extend credits to foreign governments since no rule has been established for federal agencies". The despatch adds that "In no case could credits be extended for armaments or munitions and up to the present no such credit has been requested by foreign governments." Rueff asked us this morning "whether we had any news concerning the Export-Import Bank" in connection with the foregoing report.  
(END OF MESSAGE).

BULLITT

GRAY

Paris

Dated September 2, 1939

Rec'd 4:35 p.m.

Secretary of State

Washington

1742, September 2, 7 p.m.

FOR THE TREASURY

Couve de Murville informs us that the Chamber of Deputies and Senate have just voted the war credits requested by Daladier this afternoon in the amount of 44 billion francs for "early payment" for national defense and have also authorized the national defense services to contract future expenditures in an additional amount of 24 billions. It was explained that the aforesaid 44 billions are expected to cover the requirements of approximately the first two months of the war.

The JOURNAL OFFICIAL of today likewise publishes a decree providing that during the period of "political tension" the paying offices of the Treasury are authorized to settle certain specified military expenditures even in the absence of authorized credits.

(END SECTION ONE).

BULLITT

ROW:GW

GRAY

Paris

Dated September 2, 1939

Rec'd 4:40 p.m.

Secretary of State

Washington

1742, September 2, 7 p.m. (SECTION TWO).

Furthermore such offices are given authority to pay for a period of one month from the general mobilization decree all supply bills for the account of the national defense ministries over and above allotted credits.

An additional decree prohibits the importation into France and Algeria of foreign merchandise other than gold unless specifically authorized under a procedure therein set up (for full details see Embassy's telegrams numbers 1722, September 2, 7 p.m., 1720 September 2, 4 p.m.).

Paris banks report no unusual volume of withdrawals this afternoon. The dollar was quoted at 41.75, the pound at 175.55 and the dollar-pound cross rate at 4.20.

BULLITT

ROW:GW

**PARAPHRASE OF TELEGRAM RECEIVED**

69

**FROM: American Embassy, Paris.**

**DATE: September 2, 7 p.m.**

**NO.: 1742.**

**SECTION THREE.**

Dollars and sterling were gained by the French fund.

We have confidential information from a Morgan partner that the Bank of France requested him to (omission) on a paper plan for installing the main banking institutions somewhere in the Loire Valley in central France, a part, at least, of the Bank of France to be included. Effectuation of the plan would take place only if necessity arose.

**END MESSAGE**

**BULLITT**

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*file*  
70

DATE Sept. 2, 1939.

TO Secretary Morgenthau  
FROM Mr. Haas *HA*

Attached are two memoranda which were prepared on the basis of information available after the close of the markets on Saturday, September 2:

- (1) "The Business Situation, Week Ending Sept. 2, 1939";
- (2) "Financial Developments During the Crisis".

The memorandum on "September Financing", also attached, was prepared on Thursday, August 31, 1939, prior to the meeting of the Open Market Committee on Friday, September 1.

# TREASURY DEPARTMENT

71

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE

September 2, 1939

TO Secretary Morgenthau  
FROM Mr. Haag *MA*  
Subject: The Business Situation,  
Week ending September 2, 1939.

## Conclusions

(1) War possibility is the most important business influence. If war occurs, it will result in a serious unsettlement of international trade, and consequent readjustments in various industries, but the many months of war uncertainty have already done much to put industry in a state of preparedness. The possibility of making additional sales as a result of war demand, and of gaining markets previously supplied by belligerents, has evidently led business men in the United States to expect a prompt advantage from war in Europe.

(2) Should this new demand come at the present time when inventories are low and when industrial activity is in a rising phase, industrial production in the United States will increase sharply.

(3) A heavy export demand for American steel products within a few months after the outbreak of war is anticipated by steel companies.

(4) Commodity prices, as well as selected stock prices, showed pronounced upward tendencies on receipt of war news. Sensitive commodity prices in the United States advanced more than Reuter's index of British prices.

(5) Because industrial production is now about equal to the current level of consumption, any further rise must come as a result of increased domestic consumption or increased exports on the one hand or because of a movement to accumulate inventories on the other.

The general business outlook

War is of course the predominant business news. If it comes, it will mean serious unsettlement in international trade and consequent readjustments in various industries but the many months of war uncertainty have already done much to put industry in a state of preparedness.

A sharp rise in most commodity prices on Friday, while stocks declined, was followed by substantial increases in stock prices of industries especially important in war. The rise in selected stocks was so great that it carried the Dow-Jones average for industrials up to 135.25, an advance of .54 for the day. The fact that the increase in stock prices came so soon means, doubtless, that traders believe the United States will secure immediate trade benefit from war in Europe.

Increased sales of United States products may well result from war demand and the inability of warring nations to supply their former customers. Increased sales are the more likely to cause pronounced expansion of business in the United States when they come at a time of rising tendencies in industrial production, low inventories of manufactured goods, and low supplies of some raw materials. An increase in commodity prices will doubtless cause immediate building up of inventories and so provide additional influence in the direction of increased production.

Industrial production

Industrial production throughout the world, influenced largely but not entirely by the armament race, is in a sharply rising trend. The New York Times-Annalist composite index of foreign industrial production in June established another all-time peak, further exceeding the high levels of late 1937. The accompanying increase in world demand for commodities and materials is evidenced by a rising trend in the volume of international trade. The physical quantity of world trade during the second quarter of this year, according to Times-Annalist data, increased to the highest level since the last quarter of 1937.

In the United States, industrial production during the past two months has been rapidly recovering from its earlier setback. The FRB index reached 102 in July, a gain of 10 points in two months, which carries it to within 2 points of

Secretary Morgenthau - 3

the December 1938 high. It is possible that some slight further gain has been made during August, in view of the strong upturn in steel activity, despite the shutdown of automobile plants in that month for an early change-over. The prospect of an expansion in the steel industry and other related industries this fall suggests a further rise in the FRB index, war or no war.

Rapid expansion of new-model automobile production which is expected during September and October, the earliest fall increase on record, strengthens the chances for an increase in the FRB index. Even if domestic orders for automobiles are less than they might have been, there is an urgent competitive need for a rapid building up of dealer stocks during the early months of the model season.

#### The steel industry

Steel producers, according to the Iron Age, have been looking for an intense export demand for American steel products within a few months after the actual breaking out of general war. There has recently been reported a sharp increase in the number of inquiries from potentially belligerent countries, and from neutrals who would be forced to shift their orders to the United States in the event of war.

Sentiment in the steel industry is reported as strongly optimistic, whether or not war develops. August bookings of steel orders, according to the Iron Age, are likely to range from 2 to 10 per cent above July, with a brighter outlook for September due to an imminent stepping-up of specifications from the automobile industry. Steel scrap prices have made new highs for the year, and a general firming of prices on finished steel products is under way.

Steel output has continued to increase gradually during August, following a pattern almost identical with that of last year but at a 50 per cent higher level. Steel operations during the last week of August were at 63 per cent of capacity, the highest in nearly two years. (See Chart 1.)

The present rate of operations, as indicated on the chart, is in excess of the new orders rate reported by the U. S. Steel Corporation. As was the case last August, however, the more rapid increase in operations of the independent companies (see lower section of chart) apparently indicates that they are receiving a heavier volume of orders than U. S. Steel.

Secretary Morgenthau - 4

### Stock prices

Stocks declined at first after the receipt of war news but selected issues especially related to war industries rose so considerably on Friday that the Dow-Jones average for industrials for the day closed at 135.25, up .84. The volume for the day was 1,970,000 shares, the record since March 31, 1939. The companies whose issues showed greatest price advances for the day were those connected with sugar, wool, shipping, chemicals, copper, steel, aviation, machinery, metals, and rail equipment. Dow-Jones averages for rails and utilities for the day closed down. On Saturday the average for industrials increased by 2.84 with a volume of transactions for the half day that almost equaled a whole day on Friday. Though many of the stocks that advanced most on Friday advanced again, the gains were diminished somewhat toward the close of trading.

### The commodity price situation

The Dow-Jones commodity futures index and Moody's spot price index each closed on Friday with the largest single gain in the history of either. (See Chart 2.) Among the individual commodity futures that were up on Friday to the limit allowed in one day's trading were wheat, lard, sugar and rubber. Other futures up strongly were hides, cottonseed oil, and copper. Most of the "war commodities" opened strong on Saturday but closed below their highs for the day. (See Charts 3 and 4.)

Before the recent news that hostilities had broken out, Reuter's index of British prices showed a decided upturn reflecting the combined influences of war expectation and sterling depreciation. On Friday, however, both Moody's and Dow-Jones advanced more sharply than Reuter's.

### Basic conditions balanced

Our calculated basic business indices, which provide measures of the underlying trend of business, and of the extent to which industrial production may be out of line with basic conditions, remained during July at approximately the levels held during the previous three months. (See Chart 5.)

Secretary Morgenthau - 5

Ordinarily, a rise in industrial production such as that of the past two months, however, would have been accompanied by some improvement in basic demand, in new orders, and (after some lag) in the sales of manufactured goods. The levelling out of the basic indices probably reflects in some degree the depressing influence of foreign uncertainties. If war takes place, however, all three of our indices, basic demand, new orders, and sales of manufactured goods may be expected to increase.

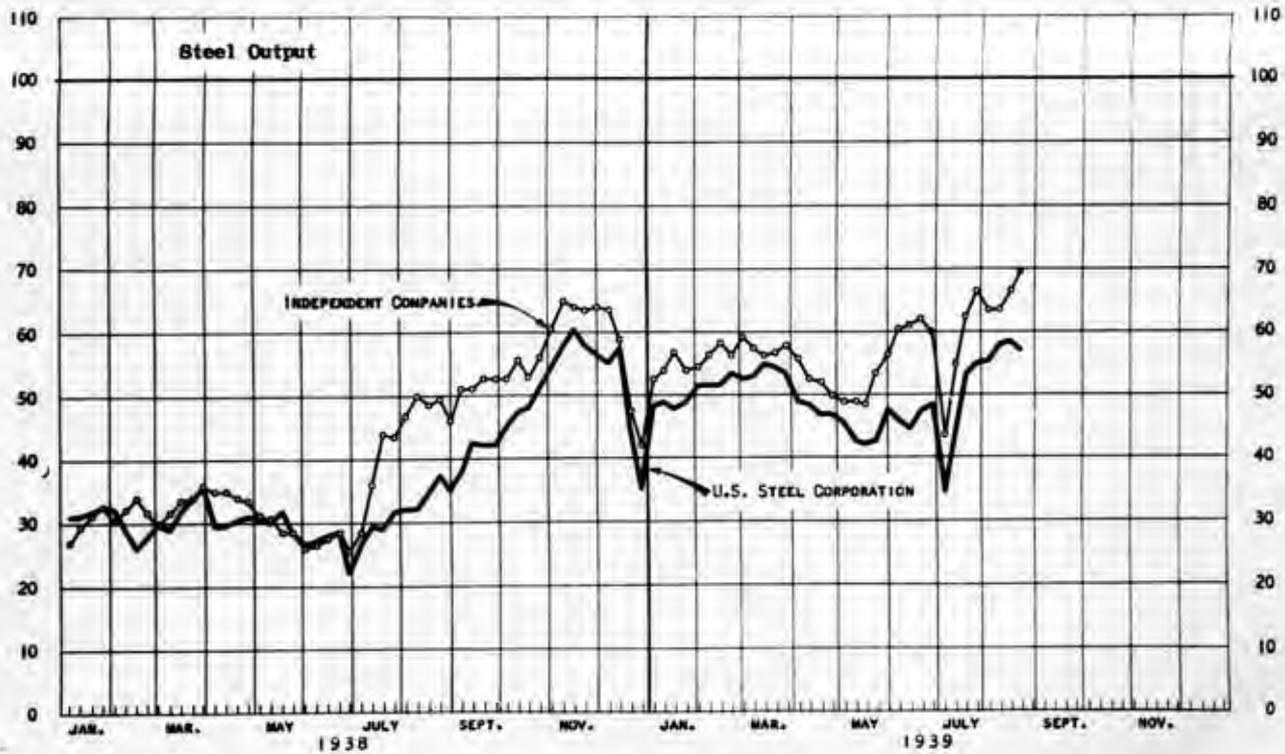
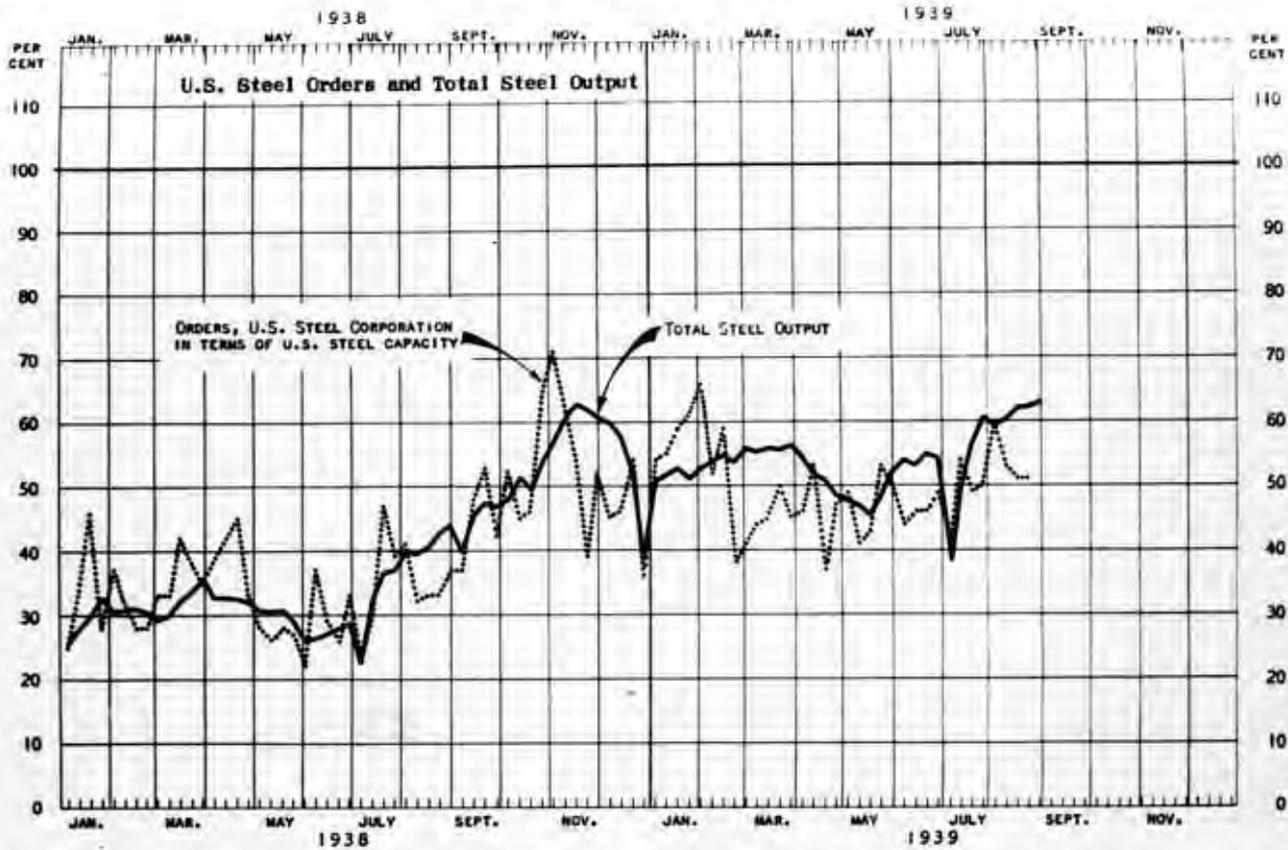
While the outlook for the steel and automobile industries points to further gains in industrial activity this fall, the fact that industrial production is now about equal to the current level of consumption means that any substantial further rise must come about either as a result of increased domestic consumption or increased exports on the one hand, or because of a movement to accumulate inventories on the other. Nearly two years of cautious buying policies have reduced inventories generally to rather low levels, and developed conditions favorable for a general buying movement once sustained commodity price increases occur.

New orders previously well maintained.

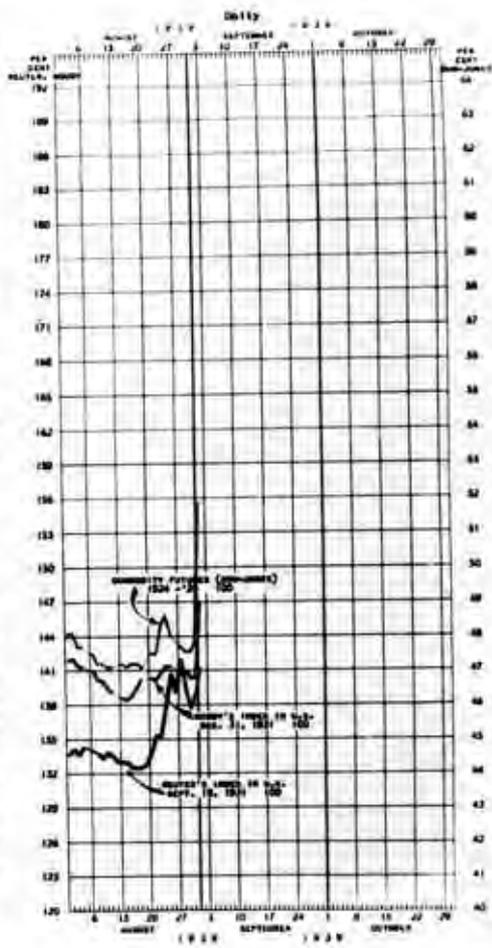
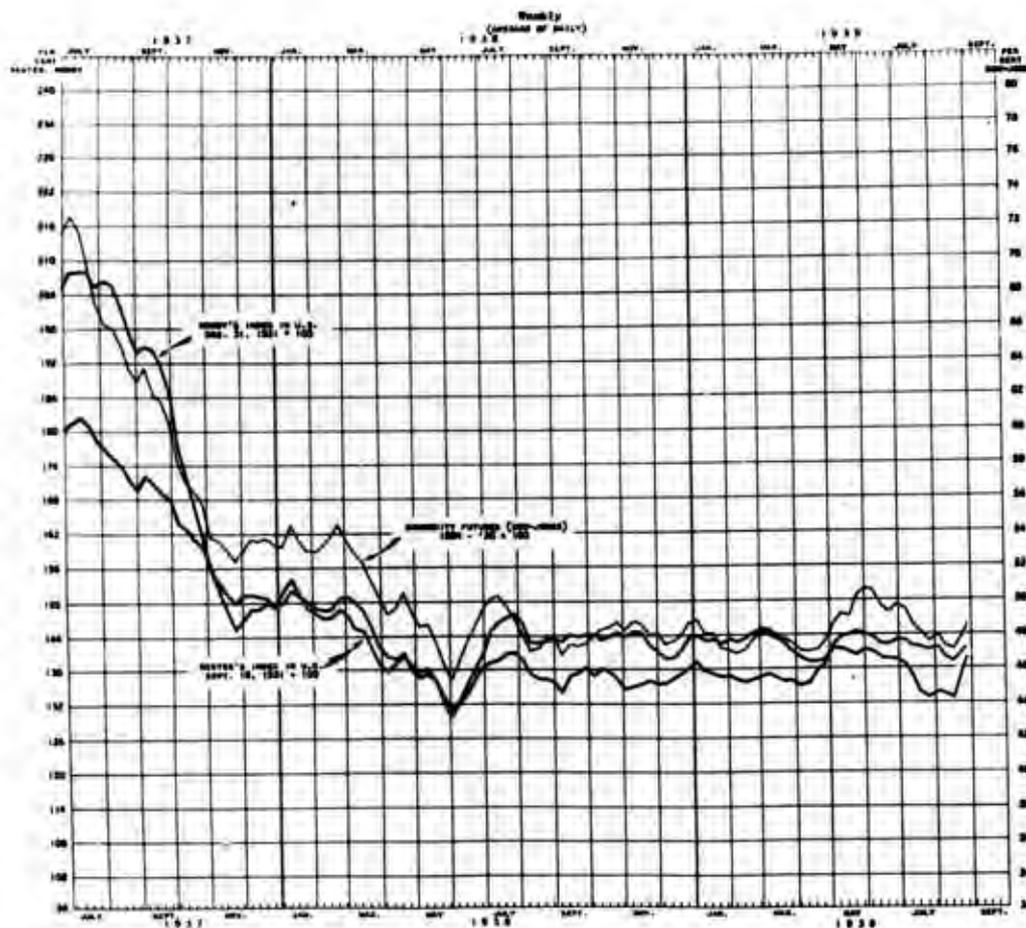
Our index of new orders (shown in the lower section of Chart 5) declined somewhat in July, but slightly less than seasonally. So far during August the volume of new orders has held steady, and apparently remains in a favorable relationship to the level of business activity as measured by the New York Times business index. (See Chart 6.)

There is no definite evidence that the European news before outbreak of hostilities had caused any curtailment of new buying. Steel orders during August averaged higher than in July. Textile orders held generally steady until last week, when they turned sharply upward to the highest level since early March. Other orders declined during June and July, but have strengthened slightly in recent weeks.

STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS  
Expressed in Percent of Capacity

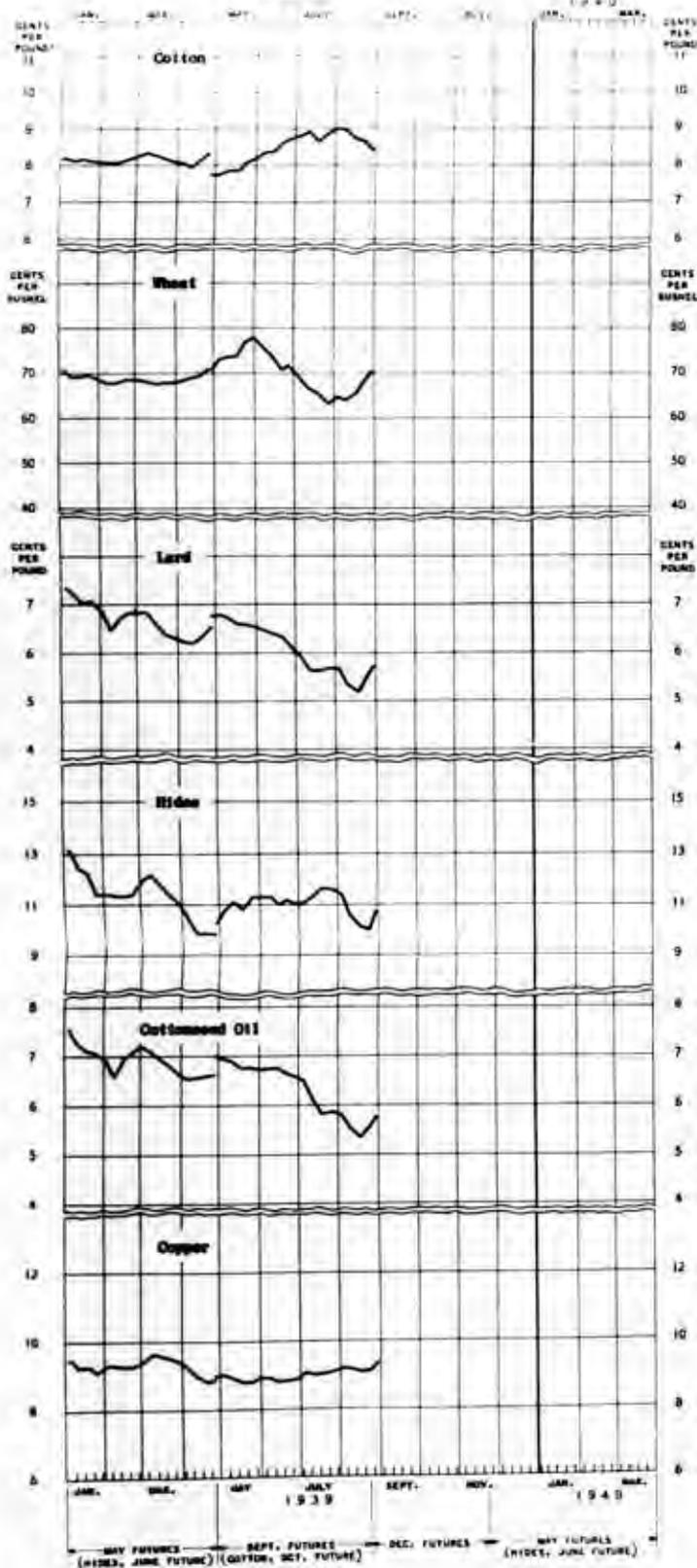


COMMODITY PRICE INDEXES IN U.S. AND U.K.

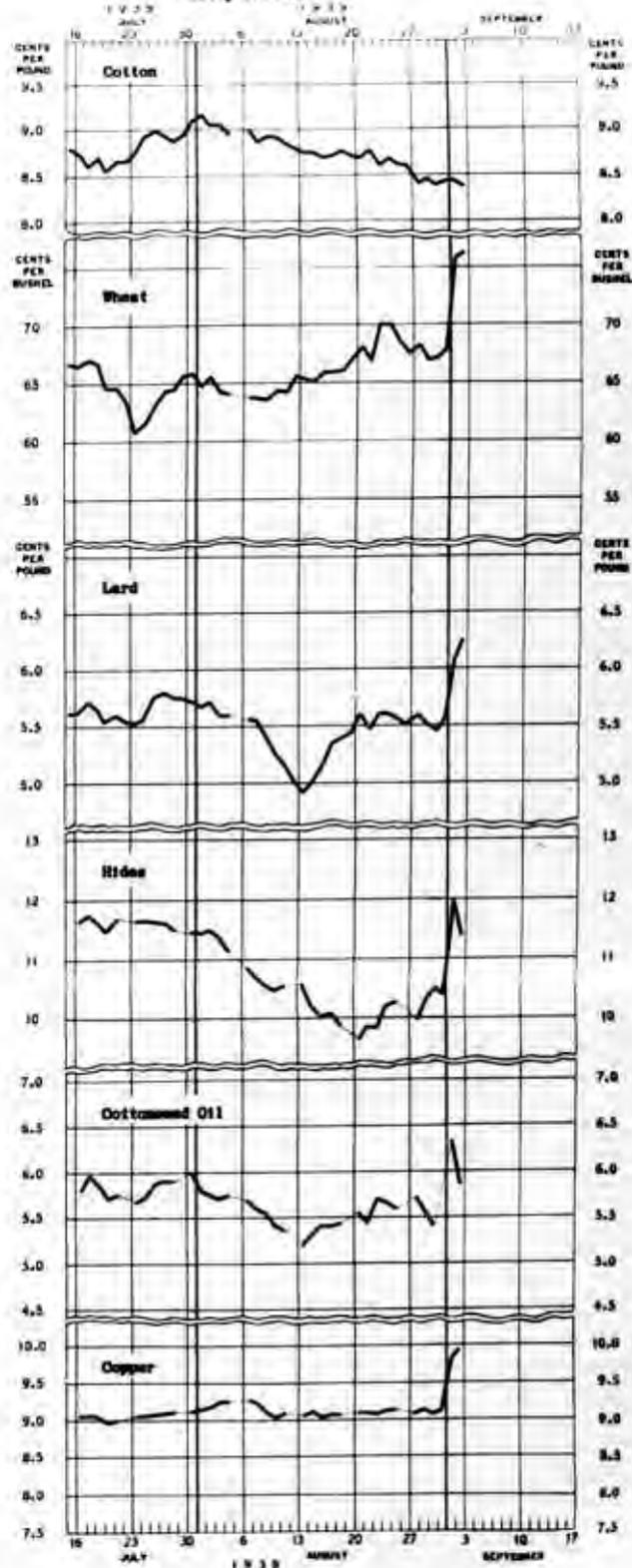


PRICES OF SELECTED DOMESTIC COMMODITIES

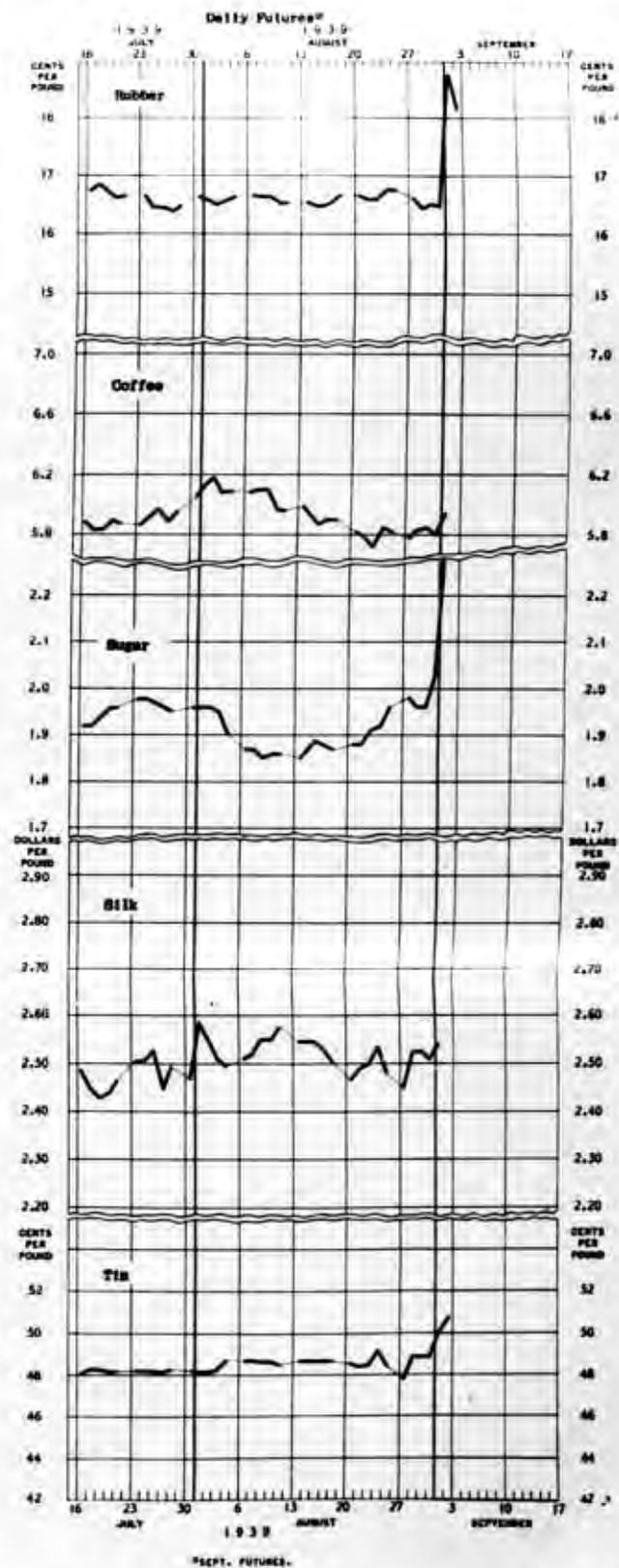
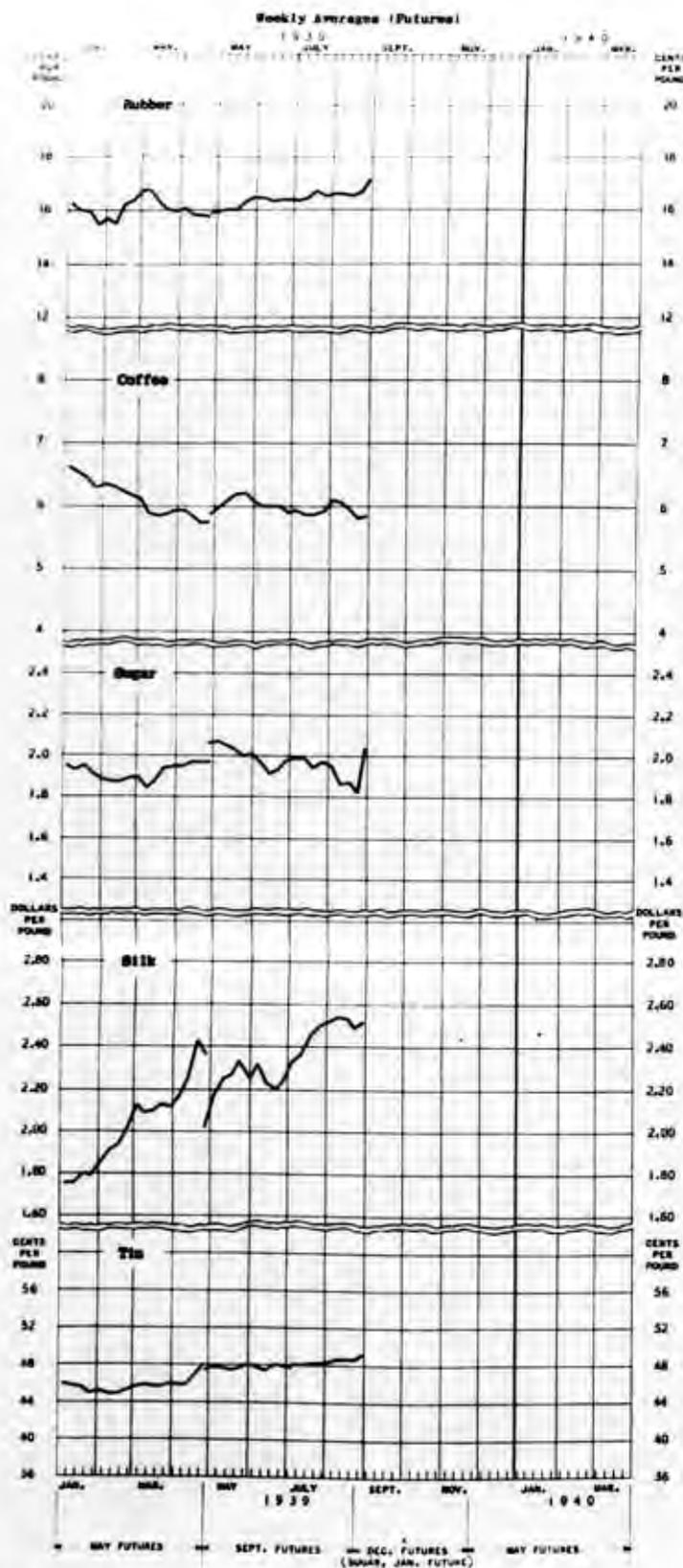
Weekly Average (Futures)



Daily Futures

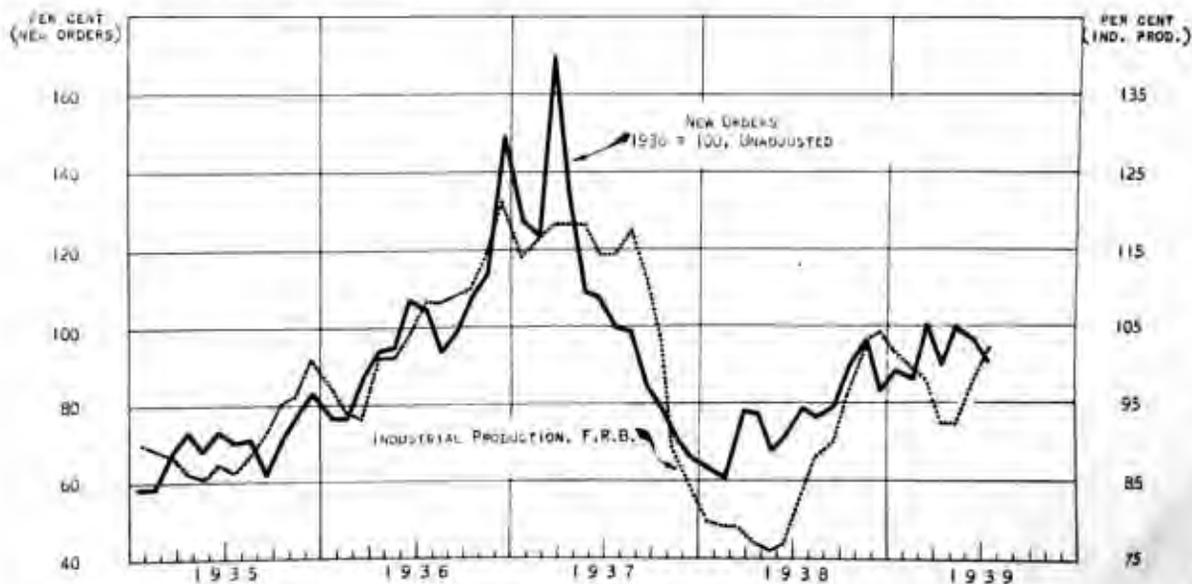
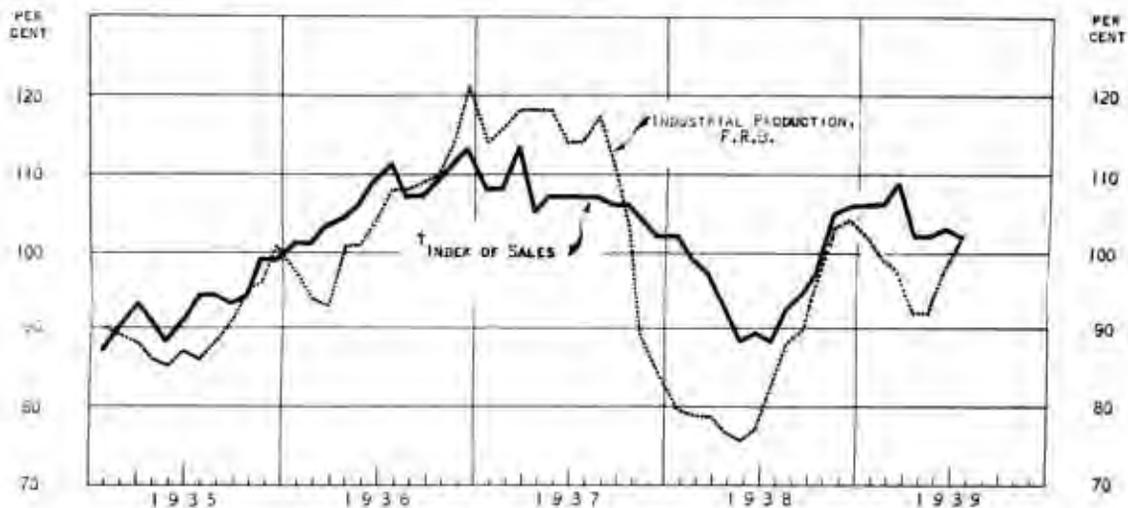
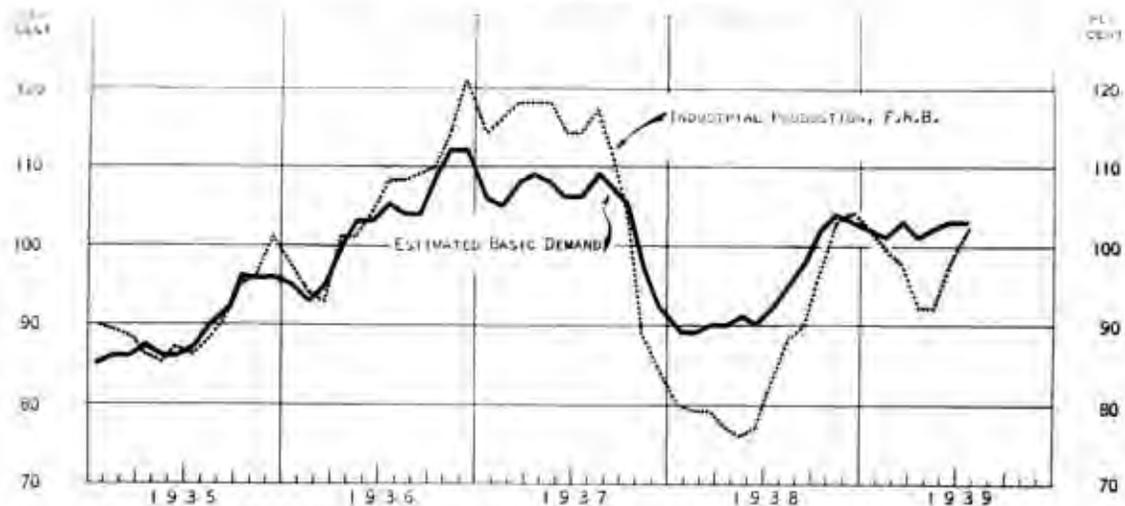


PRICES OF SELECTED IMPORT COMMODITIES



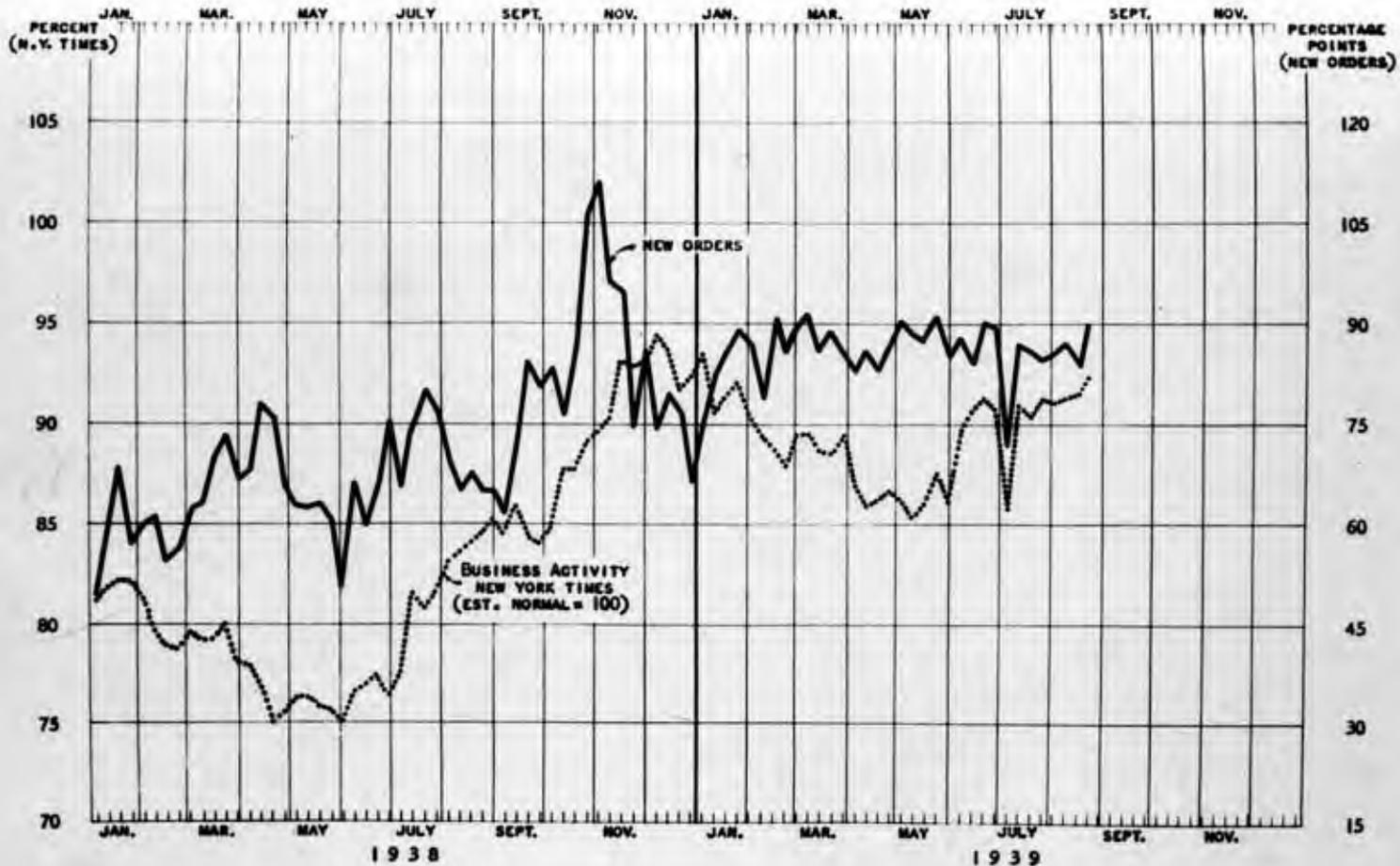
# INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1925 = 100, SEASONALLY ADJUSTED\*



PERCENT NEW ORDERS  
\*REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

WEEKLY NEW ORDERS AND BUSINESS ACTIVITY



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

Chart 6  
Confidential

1-96

81

Regraded Unclassified

Prepared by: H. C. Murphy  
Wesley Lindow  
S. G. Tickton

0

## TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE

1-23-39

82

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Financial Developments During the Crisis

SUMMARY

- (1) Despite official support, the yield on long-term United States securities has risen during the crisis period from 2.19 percent to 2.40 percent, the highest point since the end of February (Chart I). The greatest weakness has been in shorter-term bonds (Charts II and III).
- (2) Official moves to support the Government bond market have been made by the Federal Reserve System and the Treasury. On Friday and Saturday open market purchases were made by the Federal Reserve banks (\$126 millions) and the Treasury (\$13 millions). An informal agreement not to sell Governments during the crisis was made among New York City banks. The latest figures available on the Government security holdings of weekly reporting member banks are shown in Chart IV.
- (3) High-grade corporate bonds have followed the same pattern as Treasury bonds during the crisis period (Chart I). There has been a cessation of new corporate bond offerings.
- (4) The London Stock Exchange announced that it would be closed on Friday and until further notice. Previously, the yield on British 2-1/2 percent consols rose to 4.00 percent (Chart V) a level not touched since 1932. The French Bourse remained open. French Government securities had dropped to new lows for the year at the week-end.

Secretary Morgenthau - 2

### 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. By September 2, the average yield on long-term Treasury bonds was at its highest point since the end of February, in spite of substantial official support and informal agreements among large New York banking holders not to reduce their portfolios during the crisis period.

The course of the average yield on all Treasury bonds with twelve years or more to run until maturity or nearest call date is shown in Chart I. On September 2, the long-term yield stood at 2.40 percent, as compared with 2.19 percent on August 19, the last market day before the beginning of the severe phase of the crisis; and 2.07 percent on June 5, the all-time low. About half of the change in yield during the crisis period occurred on Friday and Saturday of this week.

Chart II compares the position of the market on June 5, August 19, and September 2. It indicates that the increases in yields for the period since June 5 have been greatest in the shorter 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 three-quarters, on the average, of the rise which had occurred between January and June of this year. Shorter 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 September 2, for three bond issues of different maturities are shown in the following table:

Secretary Morgenthau - 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 Sept. 2  
(Percent)

	Yield as of			Net change		Percent of gain lost
	Jan. 26	June 5	Sept. 2	Jan. 26 to June 5	June 5 to Sept. 2	
2's 1947	1.76	1.25	1.67	-0.51	+0.42	82
2-1/2's 1949-53	2.24	1.71	2.13	-0.53	+0.42	79
2-3/4's 1960-65	2.59	2.26	2.49	-0.33	+0.23	70

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 shorter issues have shown the greatest weakness during the crisis in terms of both price and yield.

The regular weekly issue of 91-day Treasury bills sold Friday (moved up because of the Labor Day holiday) sold at an average interest rate of 0.11 percent, as compared with .08 percent for the issue sold last Monday. This compares with .03 percent on August 14, the last Monday preceding the severe stage of the crisis.

## II. Official Support Given the Government Bond Market

With the development of the serious phase of the crisis, several official moves were made to support the Government bond market. The Federal Reserve Bank of New York negotiated an informal agreement with the New York banks not to liquidate their Government holdings during the crisis, and it was reported that these banks were advising their correspondent banks to do likewise.

Secretary Morgenthau - 4

In the week ended August 30, weekly reporting member banks in New York City reduced their holdings of Treasury bonds by only \$24 millions and of bills by \$14 millions, but increased their holdings of Treasury notes and guaranteed obligations by \$6 millions each. It is understood that there was a relatively small amount of scattered selling by smaller banks outside of New York City.

The latest figures available on the holdings of all weekly reporting member banks are shown in Chart IV, which shows the changes in their holdings since February 21.

After news was received on Friday morning that Germany had invaded Poland, the Federal Reserve banks began open market purchases of Government securities to make up for the almost complete lack of bids in the market.

On Friday and Saturday, the Federal Reserve banks purchased \$126 millions of Government securities -- \$57 millions of Treasury bonds, \$30 millions of Treasury notes, and \$39 millions of guaranteed obligations. There was no change in bill holdings. Meanwhile, the Treasury made purchases for its investment accounts aggregating about \$13 millions for the two days.

On Friday, the Federal Reserve Board announced that Federal Reserve banks would make advances to non-member banks, as well as to member banks, on Government securities at par at the prevailing discount rates.

### III. High-Grade Corporate Bonds

In spite of the fact that the Treasury bond market was receiving official support while the corporate bond market was not, high-grade corporate bonds have suffered only slightly more than Treasury bonds during the crisis. Our average of the yields of long-term high-grade corporate bonds increased by 0.21 percent from August 19, the last market day before the beginning of the severe phase of the crisis, to 3.01 percent at the close on Saturday, September 2. The spread between the yield of long-term Treasury and high-grade corporate bonds on September 2 was 0.61 percent, as compared with 0.58 percent on August 19 (Chart I).

The weakness in high-grade corporate bonds, however, may not be fully brought out by our average, inasmuch as four out of the five bonds used in the average did not trade on Saturday, and two of them have not traded since Thursday.

Secretary Morgenthau - 5

The crisis has brought about a complete cessation of offerings of new corporate bonds. On August 23, a large issue -- the \$45 millions refunding of the Northern Indiana Public Service Company -- scheduled to reach the market on the following day, was postponed indefinitely.

#### IV. British and French Government Securities

The London Stock Exchange announced on Thursday, August 31, that it would remain closed on the following day, and until further notice. The announcement said that the plan for the evacuation of children and others would disrupt railroad transportation, and make it impossible for members of many staffs vital to the Exchange to reach the city. The announcement brought business virtually to a standstill. All prices, where mentioned, were quoted nominally lower, but selling pressure was negligible.

Prior to the closing of the London Stock Exchange, action had been taken to prevent any further drop in gilt-edged prices. On Thursday, August 24, minimum prices had been instituted for all British, Dominion and colonial Government securities, such minima being the lows of August 23.

The crisis has brought British security prices, which have been receding steadily since June, down to levels not touched since 1932. The yield on the British 2-1/2 percent consols rose to a high of 4.00 percent on August 22, and stood at 3.86 percent on Thursday, August 31, when the Exchange closed (Chart V).

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 31, it was 1.56 percent. These comparisons, however, are subject to the reservation that since August 24 the London Stock Exchange has not been a free market. The fixation of minimum prices, however, could hardly have been responsible for the rise in British Government securities which took place the first part of this week.

Short-term yields rose sharply in London, following the increase in the Bank of England's discount rate from 2 percent to 4 percent. The yield on weekly offerings of British Treasury bills increased from 0.8 percent on August 18 to 3.7 percent on August 25 and September 1.

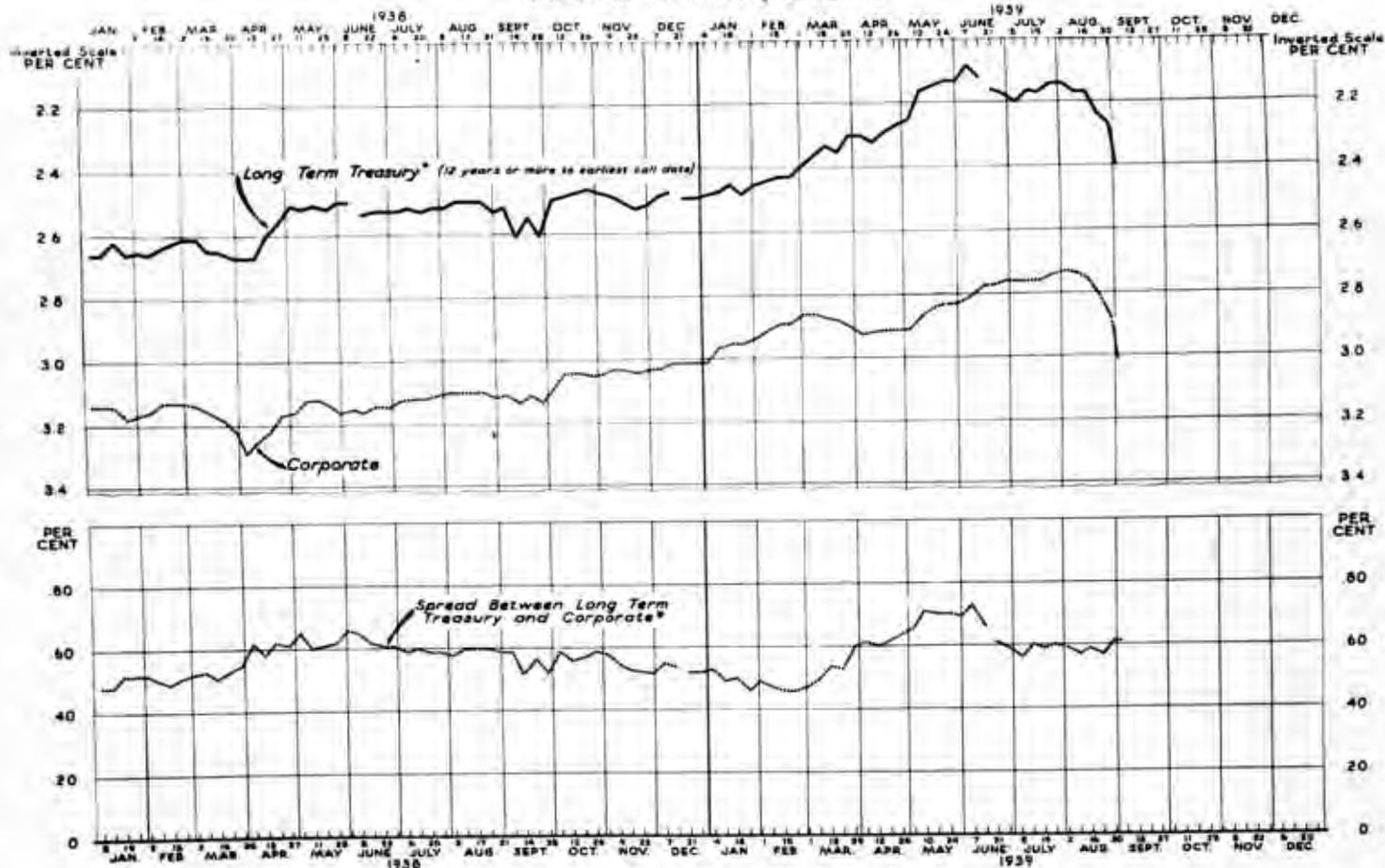
Secretary Morgenthau - 6

No action similar to that taken in Great Britain had been taken by the French Bourse with respect to French security prices at the week-end. The prices of French Government securities, which had been declining more or less steadily since the beginning of the year, had dropped to new lows at the close of the week. The yield on the 3 percent perpetual rentes stood at 4.20 percent on Friday, September 1, as compared with 3.37 percent on December 21, 1938, the lowest yield reached in some years.

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



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

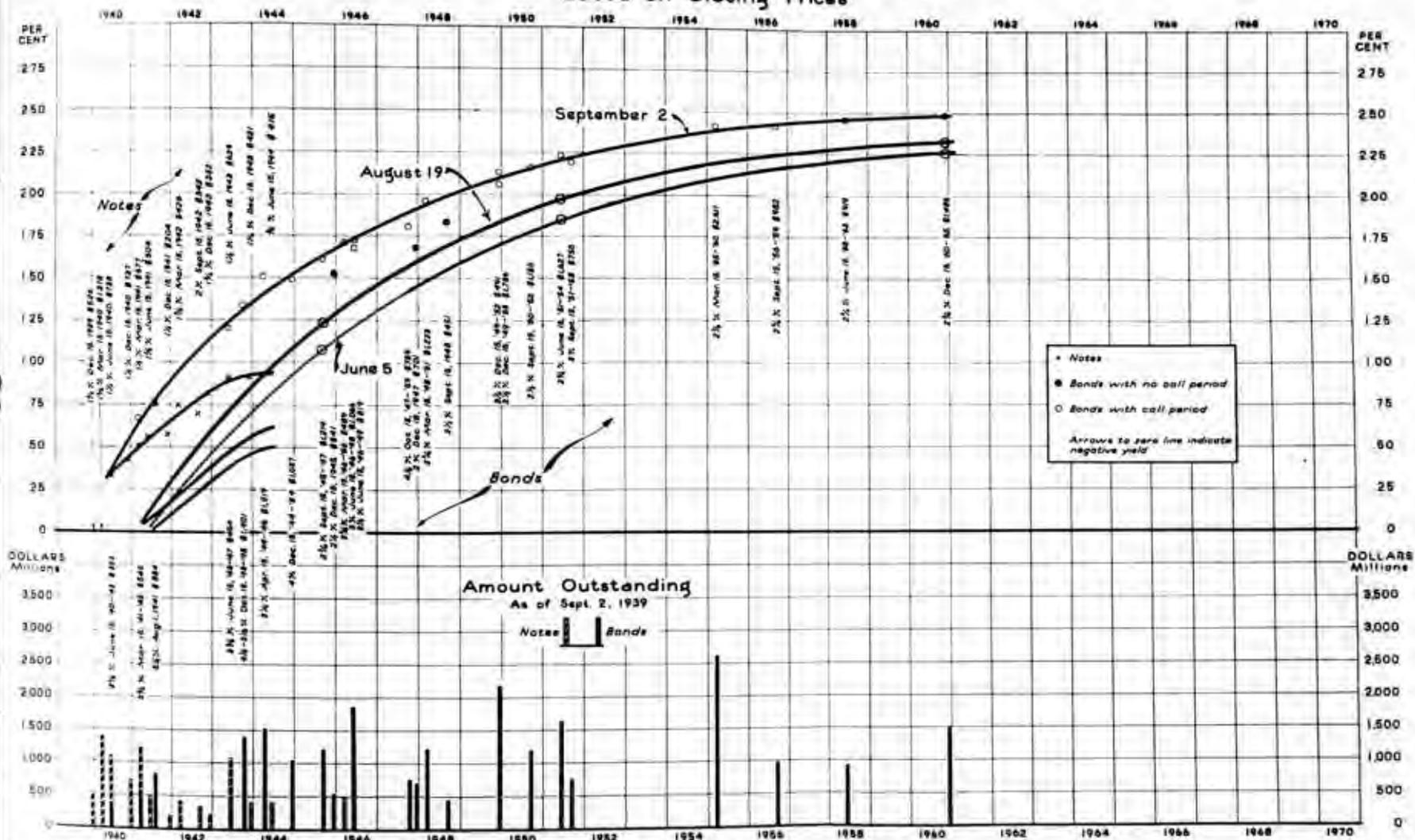
\*Break in line indicates change in composition of Long Term Treasury average  
Note: Latest figures shown are for Sept 2

F-58-D-1

CB

Chart II

# YIELDS OF TREASURY BONDS AND NOTES Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

PRICES AND YIELDS OF SELECTED GOVERNMENT SECURITIES  
Daily

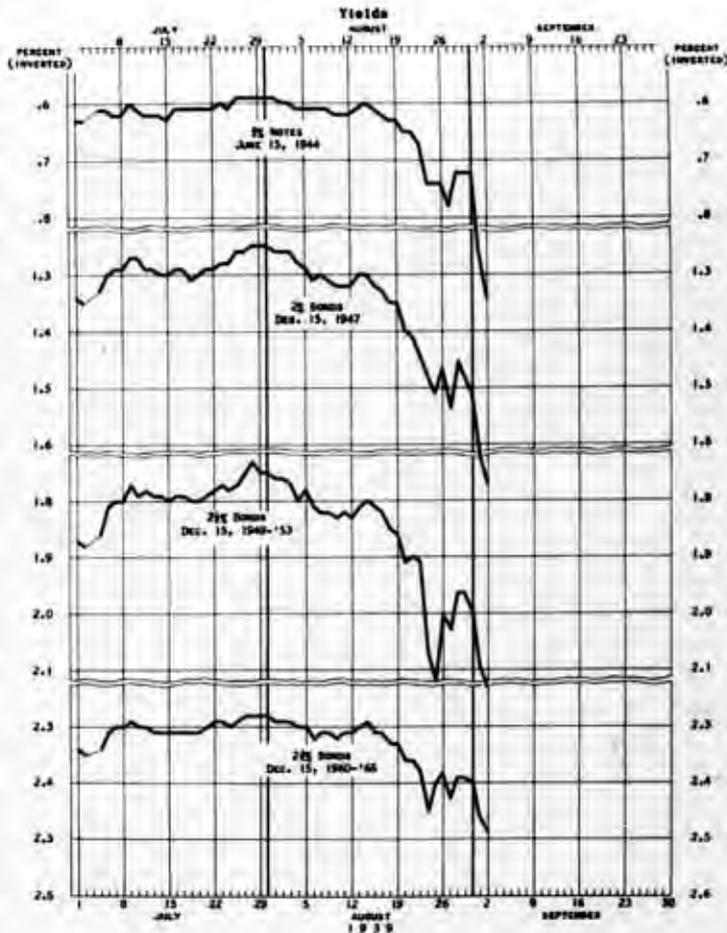
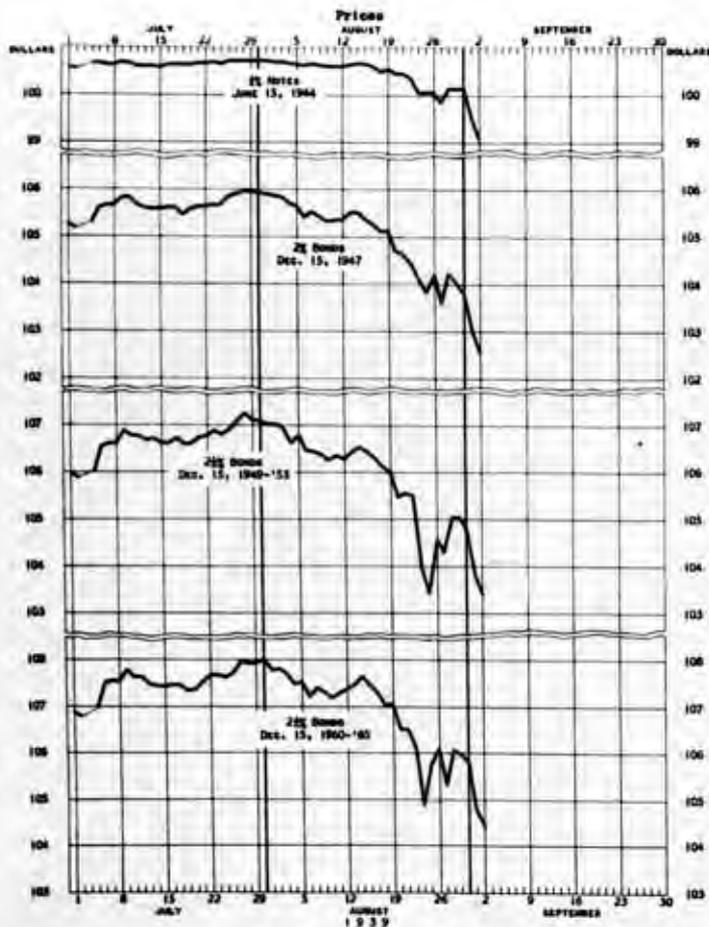
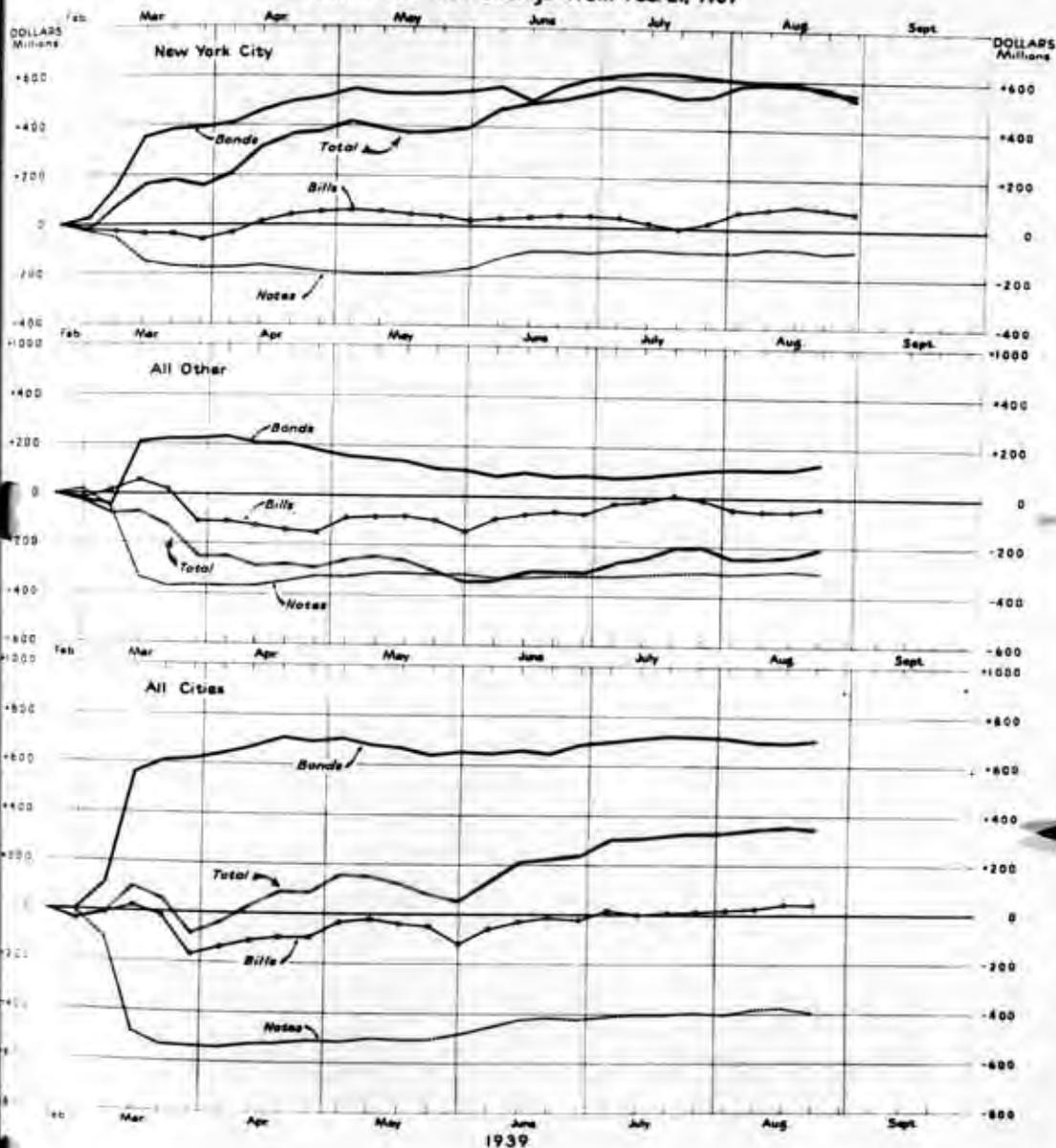


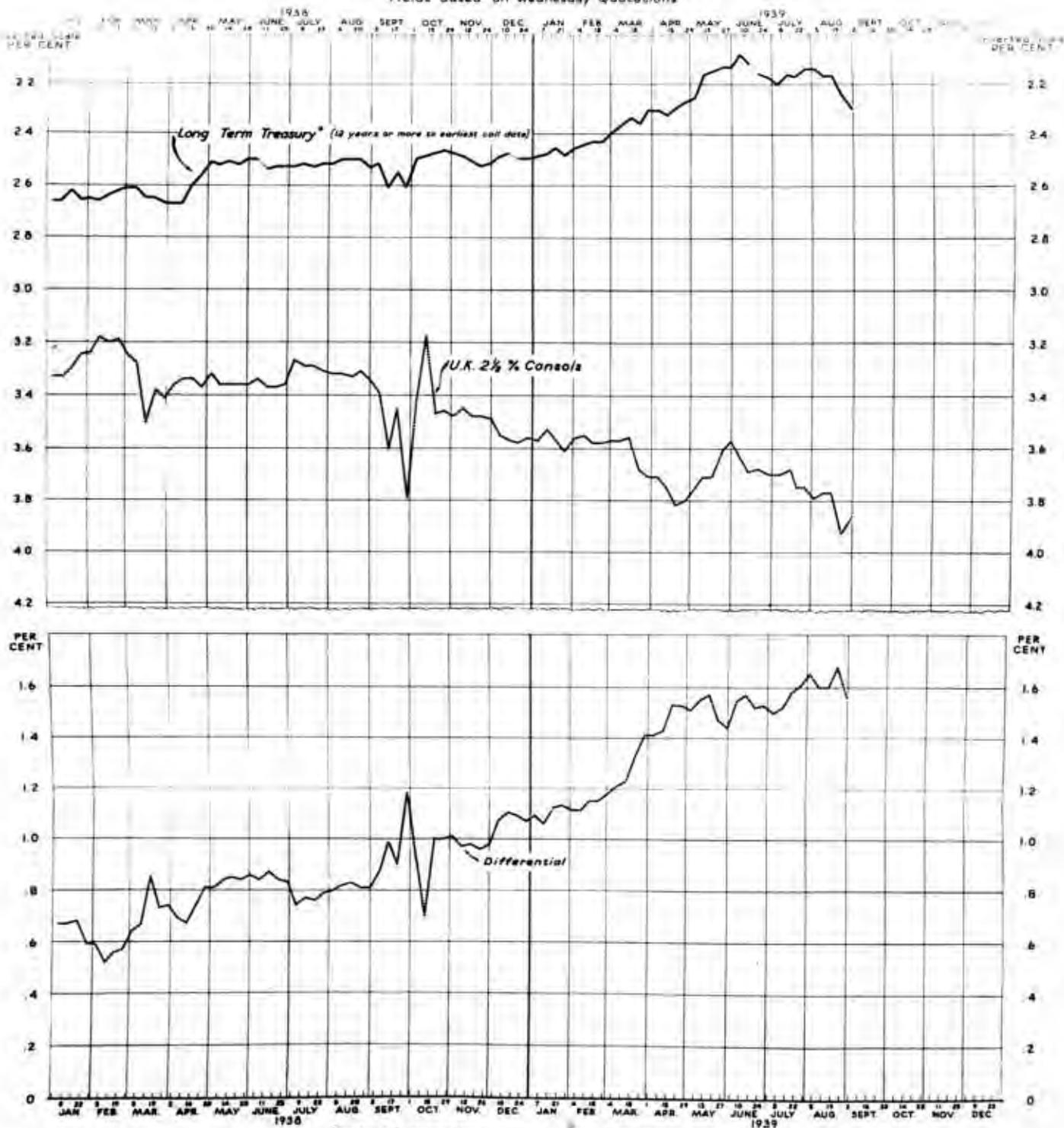
Chart IV

U.S. GOVERNMENT SECURITY HOLDINGS  
WEEKLY REPORTING MEMBER BANKS  
Cumulative Net Change From Feb 21, 1939



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
BONDS AND U.K. 2½% CONSOLS

Yields Based on Wednesday Quotations



\* Break in line indicates change in composition of Long Term Treasury average.  
Note: latest figures shown are for Aug 31. British Market closed Sept 1.

## TREASURY DEPARTMENT

93

## INTER OFFICE COMMUNICATION

DATE August 31, 1939.

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: September Financing

We recommend -- unless there is a material change in the international situation -- that the September financing be omitted entirely. Our reasons for this view may be summarized as follows:

(1) The Treasury is under no necessity of conducting a financing operation at this time, unless market conditions appear favorable. The operation, if conducted, would be merely for the purpose of anticipating a note issue not due until December and adding to an already adequate working balance. There is no reason to do either of these things unless conditions are favorable. For sometime a large working balance has been maintained and maturing obligations anticipated three months in advance, in order to be prepared to skip a quarterly financing should a crisis or other emergency render such a step advisable. The emergency has now occurred, and it is time to reap the advantage of this foresight.

(A) As far as new money is concerned, the Treasury is well prepared to wait until December. Mr. Bell estimates that if no new money at all is raised between now and December the working balance will not fall below \$500 millions. If unforeseen developments should cause a change in this estimate, the balance could easily be maintained by bill issues.

(2) Omitting a new money financing at the present time would not throw an excessive burden upon future financing dates. It is estimated that the total amount of new money financing (excluding guaranteed issues) which the Treasury will have to do during the current fiscal year is between \$1.5 and \$2.0 billions, or an average of from \$500 to \$700 millions each during the remaining three quarters. This estimate may be subject to a considerable margin of error, but not enough to increase the amount of financing required

Secretary Morgenthau - 2

during subsequent quarters beyond the probable absorptive capacity of the market. If the volume of bills should be increased, the amount of financing required at the regular quarter dates would, of course, be correspondingly reduced.

(3) Despite the fact that the net recession in the price of United States securities has been remarkably small, considering the gravity of the international crisis, the market has been very thin. It would, consequently, be very hazardous to price a new money issue. The smallness of the decline appears to have been due more to a lack of panicky liquidation than to the presence of important bids.

(4) A financing operation confined to an exchange offering for the December notes would avoid in part the difficulty of asking purchasers to make new commitments at this time, but has the special difficulty that, according to precedent, it would have to be held open two or three days with a correspondingly greater exposure to changes in the international situation than would be the case with a new money issue.

(5) The effect upon general financial sentiment of omitting a Treasury financing operation would probably be favorable rather than the reverse. It would demonstrate the strength of the Treasury position and its lack of necessity to resort to the money market, except at times convenient to it. It would also avoid the establishment of a baseline upon which new offerings of corporate securities might be measured. If, for example, the Treasury financing operation in the crisis period should be confined to refunding the December notes into new 2- and 3-year notes, the reaction of the corporate securities market might be "If that's the best that the Treasury can do, how can we expect to do any better?" In the absence of such a baseline, the corporate market might be expected to revive more rapidly with a real liquidation of the crisis.

(6) Finally, should the crisis develop instead into war and the war cause a general decline in Government bond prices, it is true that we may have to pay more later for money than we would at the present time. Under such circumstances, however, this interest saving would have been purchased at the expense of seeing a new Treasury issue fall immediately to a substantial discount. If the crisis is to develop into war, it would be better to do our borrowing later on the basis of the new facts after they become known. Borrowing at the present time is on a half-peace and half-war basis, and is likely to be unfair to either the Treasury or the purchasers, whichever eventually develops.

September 2, 1939.

To: Lt. F. E. Pollie  
Acting Chief, Intelligence Unit  
Coast Guard

From: Acting Secretary Hanes

NOTE: Confirming telephone conversation:  
This is confirming wire, given to you over telephone  
this morning at 9:00 a.m., from Acting Secretary  
Hanes to Secretary Morgenthau:

London - Although British and French ambassadors presented their  
ultimatum for withdrawal of German troops from Poland by  
midnight last night there has not as yet been any announce-  
ment of their departure from Berlin after expiration of  
the time limit or any explanation of the delay in their  
departure period

London and Paris - Parliaments meet period Chamberlain to speak later  
period

Warsaw - Authorities claim army is holding Germany at border points period

Berlin - Official news agency announces submarine fleet has put to sea  
and that Germany is ready for ten-year war with Britain period  
Army claims to have reached Teschen comma Klobuck comma Wierussow  
comma and Schildberg period

Amsterdam - American stocks strong period

1030  
26

September 2, 1939.

To: Chief Wilson

FROM: Acting Secretary Hanes - 10:00 A. M.

NOTE: For transmission to Secretary Morgenthau through  
Coast Guard radio station at Fort Hunt, Va.

London - All British Cabinet ministers placed portfolios at  
Chamberlain's disposal period  
Rome - Italy adds one thousand pilots to air force period  
London - Embargo on grain comma flour comma milk comma meats  
comma sugar comma fish by board of trade period Labor  
representative introduces in house bill to conscript  
men between eighteen and forty-one period  
Paris - Official Polish reports thirty-four planes shot down  
first day period  
Oslo - Norway comma Sweden comma Denmark comma Finland and  
Iceland declare neutrality in joint statement period  
Chicago - Wheat up five cents period same at Minneapolis and  
Winnipeg period Lard up 50 point limit period  
New York - War stock rush continues period

Commodities	Opening	Now
Dec. Wheat	up 4 1/2 to 5 cents	78 3/8 up 4 7/8
Dec. Corn	up 3 1/8 to 3 3/8 cents	51 up 2 7/8
Oct. Cotton	up 10	8.44 up 2 points

10:45 A.M. tape prices

Gold	42 1/8 up 7/8
Keen	1/2 up 1 1/4
U.S. Steel	54 3/8 up 2 3/8
Beth Steel	69 1/8 up 4 1/8
Anac.	30 5/8 up 2 1/2
U.S. Rubber	41 3/4 up 1
Am. Tel.	158 1/2 unchanged
Chry.	78 1/2 up 3/8
Repub. Steel	20 up 1 3/4

Mrs. Klots now at office period

September 2, 1939.

11 8  
97

To: Chief Wilson

From: Acting Secretary Hanes - 11:00 A.M.

NOTE: For transmission to Secretary Morgenthau through Coast Guard radio station at Fort Hunt, Va.

- Paris - France ready for consultation if fighting between Germans and Poles ceases Daladier tells Chamber of Deputies period
- New York - Rubber futures drop thirty-five to fifty-seven points from days best levels period Hides off forty-five points from days best period Copper off fifty to fifty-five points period Stock market trading slows somewhat but brokers believe public seems confident of future marketwise period Trading dulls near noon with price movement irregular period
- London - Postmaster suspends first class air mail period
- Paris - Under eleven o'clock curfew period
- Washington - President begins daily conferences with army and navy period
- Paris - Polish resistance successful period farthest German penetration reported three miles period General mobilization in effect period

Markets: 11:45 Daylight

Stock market at 11:30 was quieter after brief setback leaders steadied and recovered fractionally period

30 Industrials	137.97	up 2.72	} 11:00 averages
20 R. R's.	26.27	up 0.34	
20 Utilities	23.42	off 1.17	

Transactions 10-11 1,020,000 vs. 540,000 yesterday

Commodities

Dec. Wheat	77	up 3 1/2 cents
Dec. Corn	50 1/4	up 2 1/3 cents
Oct. Cotton	8.42	unchanged

11:30 A. M. tape prices

Beth. Steel	68 3/8	up 3 3/8
Rep. Steel	19 1/2	up 1 1/4
Anac.	30	up 1 7/8
Int. Nick.	49	up 5/8
Chry.	78 1/2	up 3/8
Sonj.	42 5/8	up 1 3/8
U.S. Steel	54	up 2
Gen. Mot.	46	up 1 1/8
U.S. Rubber	41 5/8	up 7/8

*War Office*

September 2, 1939.

58

To: Chief Wilson

From: Acting Secretary Hanes - 3:00 P.M.

NOTE: For transmission to Secretary Morgenthau through Coast Guard radio station at Fort Hunt, Va.

- London - Chamberlain tells House Commons Britain and France not weakening but would avoid catastrophe even at this last moment and would extend same opportunity to our adversaries even though I anticipate the reply we will receive. Says will not recognize validity of Danzig seizure or enter discussions while German armies remain in Poland. Promises definite statement to Parliament tomorrow after Labor leader asks why England has delayed action. Chamberlain says French and British not yet agreed on time limit they will set for German reply to their demand that armies withdraw from Poland but press reports deadline is noon tomorrow. Commons adjourns until that time.
- Berlin - Troops from Pomerania on west and East Prussia have met in the corridor isolating Polish troops in the north.

September 2, 1939.

## MEMORANDUM TO THE FILES:

Conversation between Governor Harrison, President of the Federal Reserve Bank of New York, Mr. D. W. Bell, and Mr. Hanes. Time 9:08.

Harrison: John, George Harrison.

Bell: This is Bell.

Harrison: Have you got anything you want to tell us at all?

Hanes: I haven't got a thing in the world. Let me ask Danny. George, I don't know what you plan to do today. - I guess to do what you have to and that is about all.

Harrison: Short of further instructions Sproul is going to open up with bids across the board one-eighth down from the four o'clock closing on the long bonds, long notes, one-sixteenth down on the shorter stuff. - At four o'clock the market was off for a further - off one-eighth so that it was down for the whole day just exactly one point. He is opening up an eighth under now, and there is some feeling up there that the corporates have gone down out of proportion to Governments, and there is a good arbitrage. From the Governments to corporates. I think that is bad. Marriner raised the question whether you should eliminate the differential by letting the corporates down - or so far as - is concerned at the figures I have just given you. - Now the total, you have got the total figures. We bought \$115,505 thousand, of which 61 was for dealers and 54 and a fraction from the market. Over 6 of that we took in the last hour after the market closed. There is no evidence yet up there at a quarter before 9 our time that there is any drying up of offerings. Expect a busy day.

Hanes: Where are you in Washington?

Harrison: I am sitting over here at the Reserve Board.

lg

1 original and 2 carbons made.

*For Sec'y*

107 601

100

CONFIDENTIAL

2 September, 1939.

MEMORANDUM FOR ASSISTANT SECRETARY GASTON:

Information has reached this office direct from Mexico from an authoritative source that the German government has directed all merchant ships now in Pacific or Caribbean parts of Central America, Cuba, and the United States, to proceed immediately to Mexican ports. German ships having arrived in Mexico are:

Passenger ship	GRINCOO	in	Tampico
Freighter	HANKEN		Vera Cruz
Tanker	IDARWALD		Tampico
Tanker	EMMY FRIEDRICH		Tampico
Tanker	RHEIN		Tampico

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

CASTEL BIANCO - Telegraph probable date your arrival Naples  
PIER LUIGI - Bunker at Port Said; use maximum speed  
PIER LUIGI - Use all possible speed to arrive port

The Italian station also sent a call in the Italian language to the Jugoslavian vessel PLAVNIK to telegraph her present position.

Instructions are being broadcast by the Supreme Marine Command of the German government to all German ships with routine orders concerning running lights, blacking out of lights, not entering mouths of German rivers or harbors without pilots and the like.

It should be noted that present reports indicate that there are no GERMAN vessels in the United States territorial waters.

The following vessels were listed as being in United States ports on September 1st:

		<u>Arrival</u>
<u>In Boston:</u>		
Italian	MONSIOIA	Aug. 27
<u>In New York:</u>		
Italian	ROMA	Aug. 29
Italian	BIRMANIA	Aug. 26
Italian	AMSTERDAM	Sept. 1

CONFIDENTIALIOF 601  
2 September, 1939.

		<u>Arrival</u>
<u>In Norfolk:</u>		
Italian	IDA E O	Aug. 30
<u>In St. Thomas:</u>		
Italian	VIGOR	Aug. 31
<u>In Galveston:</u>		
Italian	LAURA O	Aug. 27
<u>In Baltimore:</u>		
Italian	ADA O	Aug. 29
Italian	MARINA O	Aug. 29
<u>In San Francisco:</u>		
Italian	LENE	Aug. 25
<u>In New Orleans:</u>		
Italian	IDA	Aug. 22
Italian	MONFIONE	Aug. 25
<u>In Los Angeles:</u>		
Italian	FELLA	Sept. 1
<u>In Houston:</u>		
Italian	ARQUITAS	Sept. 1
The following vessels cleared United States ports on September 1st:		
Italian	LIVIGNA	from Baltimore for Houston
Polish	POLEK	Cleveland Chicago
	(Ray Scout 56 fset hatch)	

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

NC

GRAY

LONDON

Dated September 2, 1939

Rec'd 7:48 a.m.

Secretary of State

Washington

1372, September 2, 1 p.m.

FC THE ACTING SECRETARY OF THE TREASURY FROM  
BUTTERWORTH.

With reference to the third paragraph of my strictly confidential telegram 167, September 1, midnight, the British Treasury telephoned this morning "In order to avoid any possible misunderstanding" to point out that by foreign balances of non-residents they meant ante-war balances, not those acquired as a result of war activities. Naturally American exporters to the United Kingdom will feel it advisable to obtain assurances of payment in dollars before shipment. In this general connection the Ambassador asked me to emphasize both the confidential nature of the information in paragraph three of last night's telegram and that it is important that no word leak out that discrimination in favor of Americans will take place through the administrative machinery.

KENNEDY

HPD

MRE

PLAIN

London

Dated September 3, 1939

Rec'd 9:10 a.m.

Secretary of State,  
Washington.

RUSH.

1395, September 3, 3 p.m.

FOR THE ACTING SECRETARY OF THE TREASURY FROM  
BUTTERWORTH.

The financial regulations and Treasury orders referred to in paragraph 2 my 1367 of September 1 - midnight are being promulgated. The British Treasury states that all banks will be closed on Monday but it is their intention to open them on Tuesday. There will be no general moratorium but under the new Treasury powers debtors in particular difficult circumstances can apply for special consideration and their cases will be treated by the British monetary authorities on their individual merits.

The British Treasury states it has not yet been decided as to what the official rate for sterling in terms of dollars will be when the banks open on Tuesday.

KENNEDY

OSB

PAP

PLAIN

BERLIN

Dated September 3, 1939

Rec'd 10:15 p.m.

Secretary of State

Washington

1042, September 3, 5 p.m.

59. FOL. TREASURY FROM HEATH.

No public loans or special financial measures of importance have so far been announced. The latest figures for the disclosed government debt are for the quarter ended June thirty. Separate figures for the month of June alone have not yet been made public but the quarterly figures indicate that government borrowing was not as great during June as was thought.

Figures for the single month of June are only available as regards the short term debt which increased but 410 million marks, the smallest monthly increase in recent months. A total of 829 million marks of the new finance plan tax certificates was issued during June but the increase from this source was offset by the retirement of about 149 million of short term Treasury paper.

The quarterly figures show an increase of 724 million marks in long term debt (mainly further emissions of bonds

of

PAP -2- 1042, September 3, 5 p.m. from Berlin

of the January 1939 issue to supply the investment needs of the savings banks and insurance companies) is during the three months ended June thirty. This increase occurred during the last two months of the quarter. In April there had been a decrease in long term debt through amortization of 21 million marks. The total reported debt of the Reich long and short term was thirty four thousand five hundred seventeen million marks on June 30 as compared with thirty thousand eight hundred fifty one million marks on March 31. (This last figure is slightly higher than that reported in my number 41 of June 23, 6 p.m., due to the inclusion of old style tax certificates issued during the earlier years of the regime which were not previously included in the Reich debt totals. (The net increase in the published debt during the quarter was therefore three thousand six hundred sixty six million marks instead of the four billion mark increase anticipated).

With the publication of the debt figures for June 30 a better approximation of recent government expenditures can now be made than that given in my number 56 of August 15, 5 p.m. Tax revenues of five thousand two hundred twenty one million, net borrowings of three thousand six hundred sixty six million marks and an estimated two hundred fifty million marks of miscellaneous revenues make a total of  
nine

PAP -3- 1042, September 3, 5 p.m. from Berlin

nine thousand one hundred thirty seven million marks for the June quarter. From this must be deducted the share of the municipalities and provinces in the Reich tax revenues, estimated to be around seven hundred million marks a quarter. It is assumed, therefore, that government expenditures totalled at least eight thousand four hundred thirty seven million marks during the June quarter, indicating an annual rate of between 33 and 34 billion marks as compared with an estimated 27 billion during the fiscal year ended March 31 last.

KIRK

KLP

TREASURY DEPARTMENT

WASHINGTON

Office of  
The Secretary

SEP 3 1939

The Collector of Customs,

Sir:

Strictly Confidential

In your application of pertinent laws, regulations, and instructions, a distinction should be recognized between merchant vessels armed solely for defensive purposes and merchant vessels armed for offensive purposes. Merchant vessels armed only for defense shall be treated in the same manner as unarmed merchant vessels. Merchant vessels armed for offense are to be regarded as vessels of war and subject to treatment as such.

Any control necessary to be exercised with respect to vessels of war in territorial waters or ports of the United States will be exercised by the United States Navy, to which the full cooperation of the Customs Service shall be extended.

Primary responsibility for examining vessels represented to be merchant vessels to determine whether they are armed for offense rests with collectors of customs. If a merchant vessel carries armament which is mounted or may be mounted thereon and there is any doubt whatsoever whether such armament is for defensive or offensive purposes, you should consult with the nearest principal officer of the Coast Guard and be guided by his advice.

If an armed merchant vessel of a belligerent carries a commission or orders issued by a belligerent government directing it under penalty to conduct aggressive operations, or if it is conclusively shown to have conducted such operations, it should be regarded and treated as a vessel of war.

For the guidance of Customs and Coast Guard officers concerned the Department, in consultation with other departments of our Government, has prepared a list of some of the conditions and circumstances which will tend to indicate that armament found on a vessel is for defensive purposes only. All these conditions and circumstances should be considered in conjunction with each other, together with any other facts or attendant circumstances which might aid in determining whether the voyage which the vessel proposes to undertake will in fact be solely for the purpose of normal, legitimate, and peaceful

trade. For instance, the fact that a vessel does not carry more than four guns and that none of the guns is of a greater caliber than six inches does not of itself indicate conclusively that the armament is defensive. Other attendant circumstances may reveal that the armament is for offense and that the vessel is to be regarded as a vessel of war.

The list above mentioned is as follows:

Indications that armament will not be used offensively are:

1. That the caliber of the guns carried does not exceed six inches and that the number of the guns carried does not exceed four.
2. That the small arms carried are few in number.
3. That the quantity of ammunition carried is small.
4. That the vessel is manned by its customary personnel supplemented only by a reasonable number of personnel to operate the defensive armament.
5. That the vessel intends to and actually does clear for a port lying in its usual trade route, or a port indicating its purpose to continue in the same trade in which it was engaged before war was declared.
6. That the vessel takes on board fuel and supplies sufficient only to carry it to its port of destination, or the same quantity substantially which it has been accustomed to take for a similar voyage before war was declared.
7. That the cargo of the vessel consists of articles of commerce unsuited for the use of a ship of war in operations against an enemy.
8. That the vessel carries passengers who are as a whole unfitted to enter the military or naval service of the belligerent whose flag the vessel flies, or of any of its allies, and particularly if the passenger list includes women and children.

Very truly yours,

(Signed) JOHN W. HANES

Acting Secretary of the Treasury.

September 3, 1939.

4 P.M.

Mr. Secretary?

Hanes:

Yes.

This is Lieutenant Field.

H:

Yes - hello.

F:

I have a - I sent a message to Secretary Morgenthau and I'll read you the message I sent which is as follows: "Mr. Hanes desires to know whether you expect to come through from Boston tonight on V-151 or will you stay in Boston tonight?" I just got a message back which isn't a direct answer to that but may be intended as an answer. It says: "For Treasury Switchboard. Please have two cars meet me at airport when we arrive in Washington. When we leave Boston will notify of time my arrival. Signed Morgenthau. I imagine that that would indicate he is coming through tonight.

H:

Yes I should imagine so. Well if you get any direct answer to my telegram let me know, you see because I want to meet him.

F:

Yes sir, I'll do that.

H:

And if he doesn't answer it then check him up a little later in the afternoon and say I want to have a definite answer. I don't want to say to him that I want to know whether he's coming or not because I want to go to bed if he is not coming. That's the idea.

F:

Yes sir. Well I'll check it up a little later on and tell him that you expect to meet him when he arrives. Is that correct?

H:

Yes, that's correct but don't say that in the telegram.

F:

All right.

- H: Just keep checking up on the ship to make sure that he is coming through tonight. That's all I want to know.
- F: Oh, all right sir. You don't want me to send another message and ask.....
- H: No, just wait a little while. If he thinks this is an answer to my message - I would judge that it is an answer but not directly to my message. They may send you back a message saying he will come through tonight and that's what I want to know.
- F: Yes sir. All right sir, I'll keep informed about that.
- H: O.K., thank you very much.
- F: You're welcome sir.

MRE

GRAY

London

Dated September 3, 1939

Rec'd 2:08 p.m.

Secretary of State,  
Washington.

RUSH.

1407, September 3, 7 p.m.

FOR ACTING SECRETARY OF TREASURY FROM BUTTERWORTH.

I inquired as to plans of the Dominion and Colonial Governments and was informed by Phillips that with the exception of Canada, Newfoundland and such entrepot places as Hong Kong, they were all putting into effect arrangements similar to those promulgated by the British Government.

Phillips again explained that it had not yet been decided what would be the official rate of the pound on Tuesday, but for our guidance he indicated that he was practically certain that it would not be below four dollars. He felt it should be just a few cents above four dollars; drastic depreciation he feared would have too inflationary an effect.

KENNEDY

NPL

McC

LONDON

Dated Sept. 3, 1939

Rec'd. 3:30 p.m.

Secretary of State,  
Washington.

1411, September 3, 9 p.m.

Embassy's 1363, September 2, 5p.m.

Following is Board of Trade announcement dated  
September 3.

"The Board of Trade announce that they have made an order under the Imports Exports and Customs Powers (Defence) Act 1939 which was passed into law on Friday last prohibiting imports of certain goods except under licence. The object of the order is to limit with effect from the 5th September imports of luxuries and of goods of which there are sufficient home supplies in order to conserve exchange for the additional purchases of other products required in war time. The main categories of goods covered by the order are pottery and glass, cutlery, clocks and watches, textile goods and apparel (including footwear), certain chemicals and paints, soap, office machinery (including typewriters)

McC

-2- Telegram #1411, Sept. 3, 9p.m. from London

typewriters), motor cars, musical instruments, perfumery and toilet requisites, toys and games and luxury foodstuffs.

Enquiries should be addressed to the Import Licensing Department 25 Southampton Buildings, Chancery Lane , London, WC2".

I have received a proof copy of the order and two related schedules which are not to be published before tomorrow. As they cover eight fine print pages they will not be telegraphed unless requested.

KENNEDY

CSB

REB

GRAY

Paris

Dated September 4, 1939

Rec'd 10:49 a. m.

Secretary of State,  
Washington.

RUSH

1765, September 4, 11 a. m.

FOR THE TREASURY.

Bank of France quotes a buying rate for dollars this morning of 41.75 and for pounds of 175.55. Up to this hour of 11, however, there have been practically no exchange transactions.

It is expected that the Bourse will open this afternoon as usual handicapped, of course, by greatly reduced personnel. The Journal Official carries a decree closing the commodity exchange at Havre.

BULLITT

RR

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 4, 1939, 3 p.m.

NO.: 1768

RUSH.

FOR TREASURY.

We have just been informed by Reynaud that this morning the British Government stated to him that today the British Government intended to establish exchange control. Reynaud added that he had been asked to state the figure at which the French would like to have the franc fixed, and he had told them that they could take the figure 175.55, which was the latest closing quotation.

As for the dollar, Reynaud said he had been informed by the British that it was their intention to fix the dollar price at four naught four.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE, SECTION TWO, TELEGRAM NO. 1768  
OF SEPTEMBER 4, 1939, FROM THE AMERICAN EMBASSY,  
PARIS.

For the moment, Reynaud said, in spite of the measures which the British were taking, he did not intend to take extraordinary measures for the "protection" of the French franc.

In addition, Reynaud said he thought the British in fixing the pound at (omission) four naught four were "exceedingly optimistic". The pound would be driven considerably lower than that by war of any considerable length.

We were told by Reynaud that he had already sent to the neighborhood of Tours approximately 4000 employees of the Finance Ministry. He said that for himself he expected to stay in Paris with about 400 Ministry employees, 100 of them being firemen and guards.

END MESSAGE.

BULLITT .

EA:LWW

September 4, 1939  
4:47 p.m.

117

HMJr: Hello.

Operator: Go ahead.

Admiral H.R.  
Stark: Hello.

HMJr: Yes?

S: Mr. Secretary?

HMJr: Talking.

S: This is Stark.

HMJr: How are you?

S: I'm first-rate, sir, and I've been intending calling on you but you -- since you've gotten back, but we've been so busy I just haven't gotten over, but I did appreciate your note.

HMJr: Well that's fine.

S: Well, what I called you for right now was Mr. Edison...

HMJr: Yes.

S: .....has sent you a letter.

HMJr: Yes.

S: And he asked me to tell you.....

HMJr: Yes.

S: .....that in his judgment it would be well to say nothing about this patrol until we had it -- we are ready to establish it. In other words, keep the thing secret, or confidential, for the present.

HMJr: Well, I've already told Waesche to get two cutters ready.

S: Yes.

HMJr: Ah.....

S: Well, what I -- I don't mean that part of it, but I mean as far as giving anything out to the press.

HMJr: Oh, we never do that.

S: Yes, sir. All right. Well, he.....

HMJr: No.

S: ..... -- he's giving out nothing and he just wanted to make sure that.....

HMJr: No.

S: .....you knew what he was doing.

HMJr: No leaks in the Treasury.

S: All right, sir.

HMJr: No, we're assigning -- as I understand it, we're assigning those two cutters to you and then it's your show and you do the talking.

S: All right, thank you ever so much, sir.

HMJr: Thank you.

S: All right. Goodbye.

Sept 4, 1939

119

Edge Moore

Hackworth

Fris

This note from Hull  
refers to my asking for  
someone to help me on  
the sandie and Queen Marie

~~Sept~~ Sept 4, 1939

120

I will go to work on  
this night after cabinet  
who will you assign  
to me to this job  
Normandie and  
Queen Mary  
Henry

I will phone you  
right after I reach  
office —

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE

September 4, 1939

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

For your information

Supplementing my memorandum of this afternoon, it is suggested that as an alternative to the use of the American President Lines Inc. there might be employed in the Normandie transaction as purchaser the Panama Rail Road Company.

The Panama Rail Road Company is a New York corporation created by Chapter 284 of the Laws of 1849. That Act authorized certain individuals to form a corporation "for the purpose of constructing and maintaining a railroad, with one or more tracks, and all convenient buildings, fixtures, machinery and appurtenances, across the Isthmus of Panama, in the Republic of New Granada \* \* \* and of purchasing and navigating such steam or sailing vessels as may be proper and convenient to be used in connection with the said road." By Chapter 364 of the Laws of 1855 the corporation was granted certain additional powers and permitted to increase its capitalization to an amount not to exceed \$7,000,000.

In 1904, the United States acquired the entire capital stock of the corporation and ever since has been the sole owner thereof. In an opinion of the Supreme Court of the United States in 1937, the Court noted that "the company operates a railroad across the Isthmus, conducts a commissary establishment for the benefit of the personnel of the Panama

Canal, the railroad company, and the armed forces of the United States upon the Isthmus, and operates a dairy and two hotels in connection therewith. It also operates a line of steamships between New York and the Canal Zone \* \* \*. Since the acquisition of the railroad company by the government, the directors, thirteen in number, have been elected by the Secretary of War, as sole stockholder of record of the corporate stock with the exception of thirteen qualifying shares held by the directors."

Under New York law power is conferred upon every railroad corporation "from time to time to borrow such sums of money as may be necessary for completing and finishing or operating or improving its railroad, or for any other of its lawful purposes and to issue and dispose of its bonds, secured or unsecured, for any amount so borrowed; and to mortgage its property and franchises to secure the payment of any debts contracted by the company for the purposes aforesaid, notwithstanding any limitation on such power contained in any general or special law." (Railroad Law § 8, Subd. 10, underlining mine).

It would seem, therefore, that the Panama Rail Road Company has authority to borrow money and issue its obligations for the purpose of financing the purchase of the Normandie even though the Normandie might cost in excess of \$7,000,000. See N.Y., N.H., & H. R.R. Co. v. Welsh, 143 N. Y. 411, 415.

The purchase of the Normandie would be effected in the same manner as outlined in my memorandum of this afternoon dealing with the powers of the American President Lines Inc. Section 55 of the Public Service Law of the State of New York may require that the approval of the Public Service Commission be obtained prior to the issuance of the securities of the Panama Rail Road Company.

A typewritten copy of the charter and by-laws of the company is attached.

*E. W. Foley Jr*

CHARTER  
and  
AMENDED BY-LAWS  
of the  
PANAMA RAIL ROAD  
COMPANY

---o---

New York

1907

AN ACT  
TO INCORPORATE THE  
PANAMA RAIL ROAD COMPANY

Passed April 7, 1849.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

SECTION 1. - WILLIAM H. ASPINWALL, JOHN L. STEPHENS, HENRY CHAUNCEY, JAMES BROWN, CORNELIUS W. LAWRENCE, GOUVERNEUR KEMBLE, THOMAS W. LUDLOW, DAVID THOMPSON, JOSEPH B. VARNUM, SAMUEL S. HOWLAND, PROSPER M. WETMORE, EDWIN BARTLETT, HORATIO ALLEN, and their associates, successors and assigns, are hereby constituted a body corporate, by the name of the "PANAMA RAILROAD COMPANY," for the purpose of constructing and maintaining a railroad, with one or more tracks, and all convenient buildings, fixtures, machinery and appurtenances, across the Isthmus of Panama, in the Republic of New Granada, under the grant made by the said Republic to the said WILLIAM H. ASPINWALL, JOHN L. STEPHENS, and HENRY CHAUNCEY, and of purchasing and navigating such steam or sailing vessels as may be proper and convenient to be used in connection with the said road; and for such purposes all the necessary and incidental power is hereby granted to the said corporation.

SEC. 2.- The capital stock of the said corporation shall be fixed by the directors at a sum not less than one million of dollars, with liberty to increase the same at any time to a sum not exceeding five millions of dollars. Said stock shall be divided into shares of one hundred dollars each, and shall be deemed personal property, transferable in such manner as the by-laws of the said corporation shall direct. The said corporation may commence operations when five hundred thousand dollars shall have been subscribed, and twenty per cent. on each share subscribed for, paid in. The said WILLIAM H. ASPINWALL, JOHN L. STEPHENS, AND HENRY CHAUNCEY, shall be commissioners to receive subscriptions for the said capital stock, and if the whole capital stock shall not be subscribed at the time first appointed, other subscriptions may be at any time received, until the whole amount shall be subscribed, at such times and under such rules and regulations as they shall prescribe.

SEC. 3.- The concerns of the said corporation shall be managed by thirteen directors, who shall be stockholders, and who (except the first directors hereby appointed) shall hold their offices for one year, and until others are chosen in their places. The persons named in the first section of this act shall be the first directors, and shall hold their offices until the first Monday of April, in the year one thousand eight hundred and fifty-one, and until others are chosen in their places. The directors, except for the first two years, shall be annually chosen at such time and place in the City of New York, and on such notice, as shall be directed by the by-laws of the said corporation. In all meetings of the stockholders each share shall entitle the holder to one vote, to be given in person or by proxy. In case it should at any time happen that an election of directors shall not

be made on the day appointed by the by-laws of the said corporation, the said corporation shall not for that cause be deemed to be dissolved, but such election shall be held on any other day which shall be appointed by the directors of said association.

SEC. 4.- The directors (of whom five shall constitute a quorum for the transaction of business) shall appoint one of their number to be president, and may appoint such other officers and agents as they shall deem necessary, and they may make and establish such by-laws, rules and regulations as they shall think proper and expedient, touching the disposition and management of the property, estate and effects of the said corporation; the transfer of shares, the duties and conduct of their officers and servants, the election and meeting of the directors, and all matters whatsoever which may appertain to the concerns of said corporation. When any vacancy shall happen among the directors, it may be filled by the remaining directors; and the directors may remove all officers appointed by them, and appoint others in their place, and fill all vacancies in the offices.

SEC. 5.- The directors may require payments of subscriptions to the stock at such times and in such proportions as they may deem proper under the penalty of forfeiting all stock and previous payments made thereon, and may sue for and recover all such subscriptions. Notice of the time and place of such payments shall be published for four weeks previous to such time, at least once in each week, in two newspapers published in the City of New York.

SEC. 6.- The said corporation may have a common seal, and the same may alter or renew at pleasure; and all contracts made may be either verbal or under the signature of the president, secretary, or other officer or agent of the said corporation, and with or without the corporate seal.

SEC. 7.- It shall be lawful for the said corporation to contract with the said WILLIAM H. ASPINWALL, JOHN L. STEPHENS, AND HENRY CHAUNCEY, for the purchase of all the rights, privileges and immunities granted to them by the said Republic of New Granada, and for the purchase of the lands granted to them by the said Republic, and to receive a conveyance of and hold the same in like manner as the said WILLIAM H. ASPINWALL, JOHN L. STEPHENS AND HENRY CHAUNCEY now do or can do; and to lease, or sell and convey any of such lands which the said corporation shall not deem it necessary to retain, and to build and construct all such buildings, piers, docks, basins and harbors on the said lands as the said corporation may deem expedient, in like manner as the said WILLIAM H. ASPINWALL, JOHN L. STEPHENS AND HENRY CHAUNCEY can do under the said grant.

SEC. 8.- The said corporation may borrow from time to time such sum or sums of money as may be necessary to complete said road, and for the other purposes authorized by this act, in the whole not exceeding the amount

of the capital stock actually paid in, and may issue and dispose of their bonds for any amount so borrowed; and are hereby authorized to mortgage any part of their corporate property and privileges to secure the payment of such bonds; and the said directors may confer on the holder of any bond they may issue, for any money so borrowed, the right to convert the principal due thereon into stock of the said corporation at any time not exceeding five years from the date of said bond, under such regulations as the directors may see fit to adopt; and for such purpose, the said corporation are authorized to increase its capital stock to the amount so borrowed, whenever the persons, or any of them, to whom such money is due, shall elect to convert the same into stock; but nothing herein contained shall be construed to authorize an increase of the capital stock of said company beyond the sum of five millions of dollars.

SEC. 9.- Each and every stockholder shall be individually liable to the creditors of said corporation, for all debts that may be due and owing by said corporation, to their laborers and servants for services performed, and for all other debts and liabilities of the said corporation, to an amount equal to the amount of stock held by him, until he shall have paid in full the amount of such stock so held. But no stockholder shall be personally liable for the payment of any debt contracted by the said corporation which is not to be paid within one year from the time the debt is contracted, nor unless a suit for the collection of such debt shall be brought against said corporation within one year after the debt shall become due; and no suit shall be brought against any stockholder in said corporation for any debt so contracted, unless the same shall be commenced within two years from the time he shall have ceased to be a stockholder in said corporation, nor until an execution against the corporation shall have been returned unsatisfied in whole or in part. No person holding stock in said company as executor, administrator, guardian or trustee, and no person holding such stock as collateral security, shall be personally subject to any liability as a stockholder of said company, but the person pledging such stock shall be considered as holding the same, and shall be liable as a stockholder accordingly, and the estate and funds in the hands of such executor, administrator, guardian or trustee, shall be liable in like manner and to the same extent as the testator, or intestate, or the ward, or person interested in such fund, would have been if he had been living and competent to act, and held the stock in his own name. Every such executor, administrator, guardian or trustee, shall represent the shares of stock owned by him as such administrator, guardian or trustee, at all meetings of the company, and may vote as a stockholder, and every person pledging his stock as aforesaid may in like manner represent the same and vote accordingly.

SEC. 10.- This act shall take effect immediately.

AN ACT to amend the Act entitled "An Act to incorporate the Panama Railroad Company," passed April 7, 1849.

Passed April 12, 1855.

The People of the State of New York, represented in Senate and Assembly do enact as follows:

§ 1.- It shall be lawful for the Panama Railroad Company to borrow, from time to time, in addition to the amount limited by the act to incorporate said Company, passed April 7, 1849, such sum or sums of money as may be necessary to complete their road, and for other purposes authorized by said act; to issue and dispose of their bonds for the reimbursement of any amount to be borrowed, or which may have been borrowed by them, and to mortgage any part of their corporate property and privileges to secure the payment of said bonds; and they may confer upon the holder of any bond which they may so issue the right to convert the principal represented thereby into the stock of said corporation, at any time not exceeding five years from the date of said bond, under such regulations as the directors may see fit to adopt, whenever any person or persons holding any such bond shall elect to convert the same into stock; and for such purpose, the said incorporation are hereby authorized to increase their capital stock from time to time; so, however, that the whole capital of said Company shall not exceed the sum of seven millions of dollars, anything in said act to the contrary notwithstanding.

§ 2.- This act shall take effect immediately.

PANAMA RAIL ROAD  
COMPANY

AMENDED  
BY-LAWS

Corrected to January 21, 1927.

ARTICLE I

The election for Directors of this Company shall be held at the office of the Company, in the City of New York, on the first Monday of April in each year.

Three stockholders shall be chosen by the Board, at a preceding meeting, to act as Inspectors. The polls shall be opened at noon, and continue open until two o'clock in the afternoon.

The Board of Directors shall consist of thirteen stockholders, five of whom shall constitute a quorum for the transaction of business at the meetings of the Board.

ARTICLE II

The Officers of this Company shall consist of a President, a Vice-President, a Second Vice-President, a Secretary and a Treasurer.

The President, the Vice-President, and the Second Vice-President shall always be members of the Board of Directors, and the said officers shall be elected by the Board annually within eight days after the election of the Directors. The vote shall be by ballot, and a majority of all the members of the Board shall be necessary to a choice.

In addition to the Officers before named, the Board may from time to time appoint additional officers, engineers and agents as the business of the Company may require, and define their duties.

The salaries of the several officers shall be fixed by the Board and no extra allowance or compensation shall be made, except with the approbation of the Board.

In case of any failure to hold any election for officers, those in office shall hold their places and be legally qualified to act, until an election shall be held.

(6)

## ARTICLE III.

The duties of the President shall be, to preside at the meetings, and to exercise a general supervision over the affairs of the Company. He shall have power to call meetings of the Directors at such time or times as he shall think proper, and it shall be his duty to call such meetings upon the written requisition of two or more of the Directors, stating the object for which they wish such meetings convened.

The Vice-President shall, in the absence of the President, exercise all of the powers and functions which may in any way be delegated to the President.

The Second Vice-President shall reside on the Isthmus, and, in the absence of the President from the Isthmus, shall exercise such duties of the President as relate to the operations of the Company at the Isthmus.

## ARTICLE IV.

It shall be the duty of the Secretary to be present at the meetings of the Board, to keep a record of all its proceedings, and to enter the same in the minute book; to send notices to the Directors of all meetings which are to be held, and to attend to such other duties as may be directed by the President, or the Vice-President.

## ARTICLE V.

It shall be the duty of the Treasurer to receive and disburse under the direction of the Board, all moneys belonging to the Company, and to keep regular and systematic accounts of all such receipts and disbursements, and to make detailed reports of such receipts and disbursements to the Directors at each stated meeting of the Board. He shall cause to be deposited all moneys received by him for or on account of the Company, in such bank or banks as the Board may select, or to make such disposition of the funds as the Board of Directors may direct; and all deposits in banks shall be entered in a book in the usual way, to the credit of the Company.

All checks and orders upon the funds of the Company shall be drawn on the bank or institution in which the money of the Company may be deposited, and such checks and orders shall be signed by the

(7)

President, the Vice-President, or in their absence the Assistant to Vice-President, and the Treasurer; or by the President, or Vice-President, or in their absence the Assistant to Vice-President, and the Auditor; or in the absence of the President, Vice-President and the Assistant to Vice-President by the Treasurer and the Auditor; and be drawn to the order of the party to whom the payment is made.

However, in cases of payment for wages due persons in the employ of the Company, the checks drawn upon a special deposit in bank, called the Isthmus Draft Account, shall be signed by either one of the following persons: The President, the Vice-President or the Treasurer.

The Treasurer shall register all transfers of stocks, and for this purpose he shall keep the account of the stock registered and transferred, in such form and manner, and under such regulations as the Board of Directors may from time to time prescribe, and he shall attend to such other duties as may be designated by the President or Vice-President.

The Treasurer shall also keep the dividend books and record of bonds, attend to the payment of dividends and interest money.

It shall be the duty of the General Auditor to have charge of and audit all accounts of the Company.

ARTICLE VI. - Repealed.

#### ARTICLE VII

All transfers of stock shall be made in the usual form, by the stockholders signing in proper person or by attorney, in a book to be prepared and kept by the Treasurer for that purpose, a declaration of sale or transfer, setting forth the number of shares transferred, the person to whom, and the time when, the same are so transferred; and at the time of such transfer, the old certificates of the shares so transferred shall in all cases be surrendered and cancelled, and a new certificate shall be issued in lieu thereof.

All certificates issued shall be signed by the President or the Vice-President, and the Secretary.

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## ARTICLE VIII

There shall be held quarterly meetings of the Board of Directors, on the second Monday in the months of February, May, August and November in each year.

A full and complete statement of the affairs of the Company, showing the result of operations for the preceding fiscal year ending June 30th, shall be submitted to the Board of Directors at any regular or special meeting held after August first.

Dividends may be declared at any meeting of the Board of Directors, stated or otherwise, payable at such times as the Board may appoint.

## ARTICLE IX

All books and papers of the Company shall be at all times open to the inspection of the Board, or any member thereof.

## ARTICLE X

The order of proceedings at the meetings of the Board shall be:

First - Reading of the Minutes.

Second- Reports of the Standing Committee,

Third - Reports of Select Committees.

Fourth- Miscellaneous Business.

## ARTICLE XI.

These By-Laws may be amended at any meeting of the Board, provided such amendment shall have been previously handed to the President or Vice-President in writing, and that a majority of all the members of the Board consent thereto.



WAR DEPARTMENT  
WASHINGTON

SEP 8 1938

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\*\*\*\*\*the following is a brief history of the Panama Railroad Company:

The Panama Railroad Company was incorporated under the laws of the State of New York by an Act passed on April 7, 1849, that gave it permission to construct and maintain a railroad across the Isthmus of Panama, with all convenient buildings, fixtures, machinery, etc., under the grant made by the Republic of New Granada to William H. Aspinwall, John L. Stephens, and Henry Chauncey; to purchase and navigate steam or sailing vessels in connection with the Road; and to purchase all the rights, privileges, and immunities that had been granted by the Republic of New Granada to said Aspinwall, Stephens, and Chauncey.

Purchase of this concession was effected, and a contract was entered into between the Panama Railroad Company and the Republic of New Granada by which the Company was given the exclusive right to

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construct and operate a railroad across the Isthmus of Panama. The construction was begun in 1850 and completed in 1855. The French Canal Company secured control of the Panama Railroad Company in 1881, and ownership of the railroad and all of its rights and holdings came into the hands of the United States Government in 1904 as part of the purchase of the Panama Canal route and associated property. The Company is operated by a board of directors appointed by the Secretary of War, who holds all the stock except the qualifying shares of the directors. The Governor of The Panama Canal is President of the Panama Railroad Company.

In 1851 the Company began the operation of a line of sailing vessels between New York and its Atlantic terminal, then called Aspinwall, and also between its Pacific terminal to Central America and Mexico and later to California. It has since operated ocean service on the Atlantic and Pacific coasts in connection with its railroad terminals, or provided for such service by contracts with other companies. The present steamship service of the Company between New York and the Canal Zone was inaugurated in 1893 with vessels of American registry, and has been in continuous existence for forty-five years.

The Company is now operating two steamers of approximately 9,600 gross tons and two of 2,600 gross tons between New York and Cristobal, via Port au Prince, Haiti; the two larger vessels carry passengers as well as cargo. Commercial cargo is handled at conference

tariff rates but the principal utility of the line is in the carriage of supplies to the Panama Canal and Panama Railroad activities on the Isthmus and in transporting employees of the two organizations between the Canal Zone and the United States; in fact, the line is considered a necessary adjunct to the Canal operations through its furnishing economical and reliable transportation for the Government and its employees. Three new passenger-cargo vessels are being constructed at Quincy, Massachusetts, to replace the steamers now in service.

The Panama Railroad Company has operated a commissary division for its employees since 1849 and when the United States Government acquired the Canal Zone the division was enlarged to include the sale of foodstuffs, clothing, household supplies, etc., to the Canal employees and to other United States Government forces on the Isthmus. A further extension was later made to permit the furnishing of necessary supplies to vessels transiting the Canal or calling at its ports. This division now embraces the operation of so-called wholesale warehouses, bakery, sausage factory, abattoir, ice cream plant, industrial laboratory, etc., and distribution and sale through retail stores in the principal Canal Zone towns.

The Panama Canal Act of August 24, 1912, authorized the President to "establish, maintain, and operate, through the Panama Railroad Company or otherwise, dry docks, repair shops, yards, docks, wharves, warehouses, storehouses, and other necessary facilities and

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appurtenances for the purpose of providing coal and other materials, labor, repairs and supplies for vessels of the Government of the United States and, incidentally, for supplying such at reasonable prices to passing vessels." Under this provision, and due to the ownership of all land in the Canal Zone by the United States with the resultant lack of reliable private organizations, the Panama Railroad Company operates various activities which would be conducted by private companies in the usual residential and business communities.

In addition to the operation of the railroad proper, the steamship line, and the Commissary Division, the business activities of the Panama Railroad Company include the operation and maintenance of harbor terminals with the transfer and stevedoring of cargo; baggage transfer; coaling plants; Canal Zone telephone system; hotels Tivoli and Washington; plantations; cattle industry; dairy; and the leasing of lots and rental of buildings on land owned by the railroad in the cities of Panama and Colon.

Rio de Janeiro

Dated September 4, 1939

Rec'd 12:45 p.m.

Secretary of State,  
Washington.

294, September 4, noon.

The Director of Exchange is taking steps to liquidate the Bank of Brazil's position in German compensation marks which amounts to approximately 6,500,000 compensation marks. The director states that unpaid German import obligations amount to 14,000,000,000 compensation marks. He will inform German Commercial Attache today of the decision of the Bank of Brazil.

CAFFERY

PARAPHRASE OF TELEGRAM RECEIVED

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FROM: American Embassy, Rio de Janeiro

DATE: September 4, 1 p.m.

NO.: 295

Emergency economic and exchange measures to be submitted today to the Minister of Finance have been drafted by the Director of Exchange. The latter's recommendations include: the establishment of an export and import commission to regulate foreign trade; subjecting all imports to prior permits, to be issued by the fiscalization department of the Bank of Brazil; establishing import classifications which the Bank is now preparing and which would favor importation of "essential products" and raw materials; authorizing the Bank of Brazil to exercise complete control over exchange operations. The Director of Exchange contemplates a plan which would permit the Bank of Brazil to allocate exchange in accord with the classifications of imports. Permission would be granted to the commercial banks to buy export bills and to sell exchange for their own collections at rates which the Bank of Brazil would establish for both.

CAFFERY

EA:FL:MSG

*Handwritten mark*

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Telephone conversation between Mr. Hanes  
and Assistant Secretary of State, George  
Messersmith - September 4, 1939 - 12:15 P.M.

Messersmith: Mr. Secretary I am wondering if it would be possible for our Charge d'Affairs in Berlin to borrow the services of the Treasury staff stationed there. In view of the fact that your staff has very little to do at present, and in light of our increased duties helping to clear British and French affairs there, we would certainly appreciate your help very much.

Hanes: I think it sounds like a very fine idea, and I will clear it with the Secretary at once and call you back. How many men do we have stationed there?

Messersmith: You have five or six men - May, Fox, Wolfe, Griebel, Brown, etc. Of course, we would be perfectly willing to release these men back to you at any time.

Note: - Mr. Hanes cleared this request with the Secretary around 5:45 P.M. and advised Messersmith that it would be OK,

*Customs* provided there were no objections from the Bureau of Internal Revenue, which has jurisdiction over the staff in Berlin. IR checked with Rose & Johnson - to be a total of about 14 men, including aliens.

RE STEPS TO MEET SITUATIONS  
CREATED BY EUROPEAN WAR

September 4, 1939.  
4:10 p. m.

- Present:
- Mr. Hanes
  - Mr. Gaston
  - Mr. Foley
  - Mrs Klotz
  - Mr. McReynolds
  - Mr. Bell
  - Mr. Tietjens (a short while)

H.M.Jr: The first thing that we're going to do is, we're going to buy the Normandie and the Queen Mary.

Gaston: I heard of that idea.

H.M.Jr: Did you hear it? When did you hear about it?

Gaston: I heard it up in Salem.

H.M.Jr: (On phone) Hello. (Conversation with Admiral Waesche follows:)

September 4, 1939  
4:10 p.m.

HMJr: Hello.

Operator: Admiral Waesche. Go ahead.

HMJr: Hello.

Admiral Waesche: Hello, Mr. Secretary.

HMJr: Admiral.....

W: Yes, sir.

HMJr: .....ah -- two things. This is advance notice. The President wants two of the Campbell transcutters to accompany the Navy on special patrol to leave in about twenty-four hours. I'm giving you notice. They -- they'll be going up to cover the ocean lanes.

W: Ah -- that's -- that's, of course, here on the east coast, the ocean lane between here and.....

HMJr: .....and Europe.

W: .....-- north Atlantic coast lane.

HMJr: They are to accompany two destroyers.

W: They are to accompany two destroyers.

HMJr: Yeah.

W: On the north Atlantic lanes.

HMJr: Yeah.

W: Ah -- who -- who will they report to?

HMJr: Well, you'll get -- I'm getting a letter from the Acting Secretary of the Navy-it will come through.

W: Yes, sir.

HMJr: And I'll send it to you. They report to the Navy.

W: Yes, sir.

HMJr: This is the way they are going to work for the time being. I mean, they'll get a special request and you'll work for the Navy on special assignment.

W: I see.

HMJr: And then get -- I mean, have your cutters ready. And then be here at five o'clock. And -- with this in mind, we may buy the Normandie and the Queen Mary, and if we do we -- we may want Coast Guard to man them.

W: I see.

HMJr: But don't talk about that to anybody, just be turning it over in your own mind, unless there's somebody in your office that you want to discuss it with.

W: Yeah. All right, sir. I'll be in your office at five o'clock?

HMJr: Please.

W: All right, sir.

HMJr: Thank you.

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- H.M.Jr: You know, the amusing thing - when I made the suggestion, the President said, "That's the funniest thing." He said, "I thought of that two days ago."
- Gaston: I call that funny, too.
- Klots: That's lovely.
- H.M.Jr: He said, "You know, it's the queerest thing, Henry and I got simultaneously the same idea two thousand miles apart." He was in good form.
- Gaston: They may not like the kind of money we offer.
- H.M.Jr: Well, we're going to have them come in here.
- I haven't had a chance to read this (memorandum from Foley). I'm just taking it for granted we can do it. Have you shown it to the Attorney General, or isn't that necessary?
- Foley: No. I suppose it would be - we'll have to start with the Maritime Commission and then we may have to bring the RFC into it for financing.
- H.M.Jr: Well, what I'm planning, Johnny - and everybody talk up; I'll feed this stuff to you - at 5:00 o'clock.... I asked Secretary Hull whom I should work with, and he gave me three names, starting with Judge Moore. So I'm asking Judge Moore to be here - and Land - at five, which gives us half an hour to talk about it. Then at five thirty I'll have Lord Lothian and this fellow - what's his name - the French Ambassador.
- Gaston: Saint-Quentin.
- Hanes: Saint-Quentin.
- H.M.Jr: Yes. So we've got half an hour. Now, have you got any suggestions who else should be here? I've got Waesche here at five, Judge Moore here at five, and Admiral Land here at five.
- Foley: The Admiral might want to bring his General Counsel, Carl Farbach.

E.W.Jr: Pardon?

Foley: Carl Farbach is his name.

E.W.Jr: All right.

McC: Can't Maritime Commission buy them?

Foley: No, not direct. They can only buy under certain circumstances vessels of American citizens, so we've got to get this title to an American corporation before they could requisition to purchase the ship.

E.W.Jr: (On phone) Hello. - - Where is he? - - No, I can't wait at all. The same on Judge Moore.

Foley: We could use the old Dollar Line, which is now the American Presidents Line, and RFC could give them credit, you see, and they could purchase the boat under an arrangement whereby a purchase price would be applied on account of the war debt of the French Government, and then the RFC would take a mortgage on the boat as security for its loan.

McC: Swell.

Foley: And then when the President proclaims as a national defense measure that it is necessary to take over vessels of our citizens, the Maritime Commission would buy the boat from the American Presidents Line and we'd pay the RFC.

McC: Swell. Sounds perfect to me.

Easton: Will the law permit us to change registry on the ship bought in that way?

McC: I think so.

Foley: I don't know why not.

E.W.Jr: (On phone) Hello. (Conversation with Admiral Land follows)

September 4, 1939  
4:16 p.m.

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HMJr: Hello.

Operator: Admiral Land.

HMJr: Hello.

Admiral Emory S. Land: Hello. This is Land, Mr. Secretary.

HMJr: How are you?

L: Fine, thank you.

HMJr: Good!

L: As much as you can be.

HMJr: Jerry Land.....

L: Yes, sir.

HMJr: .....triple secret -- ah -- in having lunch with the President, I made the suggestion that we buy the Normandie and the Queen Mary and he likes the idea.

L: So do I.

HMJr: So if you'll be here at five -- I'm having Judge Moore, who Mr. Hull assigned to this, and we've got a plan how to do it.

L: Yes, sir.

HMJr: And I'll -- I'll send it over with a messenger to you if you want me to so you can read it in advance.

L: Well that's all right; I'd come over there a little early.

HMJr: Well.....

L: Over at your office?

HMJr: Well, the trouble is -- ah -- I -- I won't be ready.

L: Oh, I see.

EMJr: Well, I'm allowing a half an hour from the time that you'd come and the time the two Ambassadors come.

L: Yes.

EMJr: Or if -- if you want to come earlier you can go to Herbert Gaston's office.

L: Gaston's?

EMJr: Herbert Gaston.

L: Yes.

EMJr: Assistant Secretary.

L: Yes.

EMJr: See? We've got a plan.

L: All right.

EMJr: O. K.?

L: At five o'clock.....

EMJr: Yeah.

L: .....at your office and at Gaston's a little earlier.

EMJr: Yes.

L: O. K.

EMJr: Righto.

L: I'll be there.

EMJr: And listen.....

L: Yes.

EMJr: You better -- you might -- it's pretty legal. Do you want to bring your General Counsel or are you a sea-going lawyer?

L: No, I think I'd better bring -- I'd better bring my General Counsel or somebody with -- I'll bring Max Truitt probably because he was General Counsel and he's also -- knows all about this show.

HMJr: Well, I -- I'm using lawyers and I'm just dropping  
the hint that you might need one.

L: O. K.

HMJr: Thank you.

L: Thank you very much.

HMJr: Good bye.

L: Good bye, sir.

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Boston: Good stuff.

W.C.Jr: Strictly in the room here, amongst the family, I said to Mr. Hull, "Now, Cordell, would you mind advising me...." You'll enjoy this. "....should I call up Bullitt...." Now, this is very much in the family. "....Bullitt on the phone, and Kennedy, and ask them to do this thing?"

He said - I oughtn't to say it - well, I'll repeat it - "Well, Bullitt will get a couple of drinks in him and he'll tell everybody, and Kennedy will claim all the credit. If you want to keep it all in your own hands, I'd use the Ambassadors in Washington."

So I said, "Cordell, on foreign affairs I always follow your advice."

Don't you love it! The old fox! What?

(Hearty laughter)

Wiley: Dan, do you know how much money the Maritime Commission has got now to purchase ships? They may have to have an additional appropriation finally to get the title over into the Maritime Commission and take the last step; but I suppose that's one of the things they'll ask Congress to do if they're called in session to revise the Neutrality Law.

Hull: As I recall, they had about 80 million last year and they got another 110 million this year.

Wiley: Well, they've got plenty of money.

Hull: But that may be all obligated; that's the trouble.

Wiley: Well, they may be able to freeze those encumbrances for a thing like this.

Hull: Might be able to go ahead and buy this and then get more money, when Congress comes in, for their other obligations.

W.C.Jr: (On phone) Hello. - - Oh, gosh! Well, if he isn't there, give me Mr. Gray in Mr. Hull's office. Gray. Give me Gray.

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Hanes: Isn't Judge Moore in?

H.M.Jr: He isn't in his office. He had a list on the thing - gave me a list: Moore, Hackworth, Feis. So I asked for Hackworth.

Foley: Hackworth is over there.

H.M.Jr: This is fun. But the President - they've got nothing to do to help these people - the Americans. Then I made the suggestion that when we get through with this, go down - put it on a South American Line run.

(On phone) Hello. (Conversation with Mr. Gray, of Mr. Hull's office, follows:)

September 4, 1939  
4:21 p.m.

WJr: Hello.

Operator: Mr. Gray.

WJr: Hello.

O: Go ahead.

Secil W.  
Craw: Hello, Mr. Secretary. It's very nice to hear your voice there again, sir.....

WJr: Fine, how are you?

O: .....and know you're back.

WJr: Mr. Gray, I want a little help.

O: Yes, sir.

WJr: At Cabinet the question came up about taking up a certain matter in regard to the Normandie.

O: Yes, sir.

WJr: And Mr. Hull -- I asked him to assign somebody to me and he put on a piece of paper the names of Moore, Hackworth and Feis. I can't reach Moore, so if -- we're having a meeting at the office at five.....

O: At five.

WJr: It's largely legal so if Mr. Hackworth could be here it would be fine.

O: Right, sir.

WJr: Now, at five thirty I'd like you to call up -- and I -- I'd like to have the British Ambassador and the French Ambassador come to my office.

O: All right, sir.

WJr: And I'll tell you what this is about so that you know.

O: Yes, sir. I don't know.

HMJr: Well, I'm going to tell you and Mr. Hull can confirm it. We're talking about buying the Normandie and the Queen Mary.

G: Yes, sir.

HMJr: And it's against -- credited against war debts and that's why I'm handling it.

G: All right, sir. I'm to say nothing to them, naturally, about what it's about.

HMJr: I think not.

G: Right, sir. I'll.....

HMJr: I'd like -- I'd like Moore or Mackworth here at five and the British and French Ambassadors at five thirty o'clock.

G: That's this afternoon?

HMJr: This after.....

G: Right, sir. I'll call your office back and confirm all these appointments.

HMJr: Will you call Kieley?

G: I'll do that, sir.

HMJr: Thank you.

G: You're welcome, sir.

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Hanes: Anything else?

H.M.Jr: Yes.

Hanes: Got any other ideas?

H.M.Jr: Yes. Now, that takes care of you (Tietjens), young fellow. We'll excuse you.

Tietjens: All right, sir.

(Tietjens leaves)

H.M.Jr: Well, in the first place, the President said he was very much pleased the way you (Hanes) carried on.

Hanes: Thanks.

H.M.Jr: And he said the Treasury was in fine shape and there was nothing to worry about so far as the Treasury was concerned.

Now, he said he wants the list of powers under the National Emergency Proclamation, and told the AG to get busy and consult with Hull and me. He turned to me and said, "Well, Henry ought to know most about this, because so much of it is financial."

Now, let me just see here - I take it you people have got that ready, haven't you?

Foley: Most of it, yes.

H.M.Jr: Huh?

Foley: Yes.

H.M.Jr: Well, what I'd like to have is what part concerns me.

Foley: That's largely the message, John, that you and Hull and the AG submitted to the President.

H.M.Jr: In regard to the Normandie, the President said he had the same idea two days ago, but he thought of paying in cash in order that they could use the money in turn to buy munitions. And I said,

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well, that wasn't my idea, because I thought of doing it on a credit basis, and if we paid them - if they got the cash from the Government, they'd have to pay us anyway right back on the war debt. There was a lot of discussion about the thing and everybody agreed it would be a swell idea if we could do it. Then I made the suggestion that when we were through we could either use it on the South American run or, if worst came to worst....

Foley: Just tie her up.

H.M.Jr: No, if worst came to worst, as a transport.

Foley: Well, that would be later.

H.M.Jr: The President said that the Leviathan paid for itself ten times over.

Caston: As a transport.

H.M.Jr: As a transport.

Foley: I was thinking she might be quite a liability to the American Presidents Line until such time as she was requisitioned. She's awfully expensive to run.

H.M.Jr: Well, and then the other thing which I don't quite understand - it seems that Summer Welles had an idea of a Tripartite Agreement for the twenty-one Latin American countries. Do you know anything about that, John?

Hanes: No.

H.M.Jr: And the President suggested that the Treasury should get busy and head the Committee and should also consult State, Agriculture and Commerce.

Klotz: And who?

H.M.Jr: Commerce Department.

Klotz: Commerce.

H.M.Jr: Now, I want a memorandum on that. I don't think we'll do anything on that today.

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Hanes: That didn't have anything to do with the Guatemala conference, did it?

H.M.Jr: No.

Hanes: Something totally different?

H.M.Jr: Yes.

Who's looking after Coast Guard?

Gaston: Well, I have been more or less.

H.M.Jr: Well, will you tell them that it's all right for them to bring their - Waesche said he could put on another thousand men if he got the authority.

Gaston: Yes, that's what I suppose....

H.M.Jr: The President said, "Do it at once."

Gaston: I'll tell him right away.

H.M.Jr: "Do it at once."

And in the future, Mac, any orders for Coast Guard shall not be executive orders but shall be military orders - that you want the President to sign.

McR: O. K.

H.M.Jr: That goes for the Army and Navy, too. If you're over at the White House, you'll want to know that.

McR: Military orders.

H.M.Jr: For Army, Navy and Coast Guard.

Gaston: They're not trying to move in on us and have Navy take over Coast Guard, are they?

H.M.Jr: Oh, Herbert, I wouldn't worry about it. For the time being he wants two cutters - he asked for two cutters; and they're detailed to cooperate with two destroyers.

Gaston: Yes.

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H.M.Jr: I honestly don't feel it's important.

Gaston: No.

H.M.Jr: I mean it's one of those things which - I just don't think it's important. I mean in times like this. I mean he's asking me for two cutters to be assigned to the Navy; I give them to him, and they then go under Navy orders. And that's the way he's going to work.

Gaston: Perfect, yes.

H.M.Jr: I mean they're going to control the passenger lanes.

Gaston: Well, I think that's sensible.

H.M.Jr: That's sensible.

McR: Normal thing for Coast Guard to do. Much better to do it that way, by special detail, than to take them all over.

Gaston: I think that's the simple answer. When they're called on to cooperate with Navy on Navy functions, then they're under Navy orders.

H.M.Jr: I'm not going to fight for Coast Guard. I think it's - on a thing like this, it's perfectly sensible.

And, Mac, I'd like to get out an executive order by the Treasury putting Secret Service under Gaston.

McR: Secret Service.

H.M.Jr: Yes.

McR: O. K.

H.M.Jr: It's under nobody now. Don't you think so, Johnny?

Hanes: Uh-huh.

H.M.Jr: What? It's a loose end.

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McR: Fine.

H.M.Jr: And then the President said, "Take a tip from me: don't let anybody put you on the Council for National Defense." He said, "That's just a study group."

Foley: We're not on it anyway.

H.M.Jr: That's what I told him.

And then he said for the time being we ought to confine our financing to bills and notes, and save bonds for a patriotic appeal. Well, I didn't argue. I told you I wouldn't. He said - well, he said, "I'll tell you how good I've been. I've even consulted Tom Lamont on it."

I didn't make any comment. I mean there wasn't - as far as I knew, the matter isn't up now. We've got all the money we need, and for one year we've been in shape to skip any three months we wanted to. The Treasury is in shape. The question isn't up.

McR: I don't think you'd have any trouble about subscriptions to....(several words not understood).

H.M.Jr: It's not up, but - I mean, we'll see.

I wish, Mac, I really - God, I could use you in a million ways - I wish we could find out whether you're going to be here or not.

McR: I don't know. I'll know tomorrow. I talked to them today.

H.M.Jr: And, oh, they talked a lot about how the war was going on, and Army claims that France, England and Poland have more, considerably more first-line planes than Germany has. The President questioned them, but the Army said they were quite sure about it.

Daston: I see the Germans and British were feeling each other out last night, with British flights into German territory and German flights across the Channel - apparently reconnaissance flights.

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H.K.Jr: And I found the President in excellent mental condition. He's got a terrible cold. He's suffering terribly from sinus. But he seems to have a - he's got a whole organization chart on the group that he wants to have work. And as near as I remember it, what he's going to have, for instance, is a man to see that there is enough labor for industry, a man to see that there is enough labor for agriculture, a man to watch prices, that sort of thing, a man to watch transportation. Incidentally, I showed him this list and he okayed it. I've asked the people to come down tomorrow morning to talk things over, at nine thirty. So will you (Hanes) hold nine thirty.

Hanes: Yes.

H.K.Jr: You, too, Herbert.

And he talked the thing over and then he said there is this fellow Forrestal and he said, "If you're going to bring the group down, I'd like to have you have Forrester. What for? Well, just to have him down there with you."

Hanes: I haven't been able to get him yet. I've been trying to get him on the phone.

H.K.Jr: But the way I feel, for the benefit of all of you - I'm going to try to do this - I want to live through this thing, if I can, and I'm going to have more help than I need at the beginning. And even if these fellows have just got to sit around and twirl their thumbs - but take the thing like lining up twenty-one South American republics; well, one of these fellows can take hold of that. There are all these extra things that will be thrown at us which have nothing to do with the regular Treasury work. But I'm just not - I can't do it. I mean I'm going to - I've been at it for seven years, and four years in Albany; I can't do it.

(Kieley hands note to Secretary)

Thank you. Hackworth, is it?

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McR: Hackworth.

Kieley: Hackworth?

McR: Yes, Hackworth.

H.M.Jr: And as I say, the idea that I have as far as Riefler and Stewart and Viner are concerned - I'm going to put them in a room.... Have you got these rooms, Mac?

McR: The Budget Bureau is still in them.

H.M.Jr: What?

McR: The Budget Bureau is still in them.

H.M.Jr: Mac, I don't care about the Budget.

Dell: They're moving.

McR: They're moving.

Hell: They were moving this week-end.

H.M.Jr: Well....

McR: The stuff has been over there.

H.M.Jr: Well, get these people out.

McR: I promised the White House today that I'd see the move was completed tomorrow.

H.M.Jr: Well, get these people out. You take Viner and Riefler and Stewart; I want to give them each a room, and they're just there to think. Now - for instance, what does it mean that the Scandinavians are detaching from sterling? I mean anything that - big movements - I mean they'll have no executive responsibility of any kind, but just feed stuff to me and the President. You know?

McR: Did Jake come back with you?

H.M.Jr: Yes.

Gaston: The world economic situation - they've got quite a job to just follow the world economic situation.

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H.M.Jr: I don't know how you feel about it. I think we're terrifically undermanned in our brains. That's the way I feel. I mean just running the Treasury is a big job and I just want plenty of help. And I don't know how you (Hanes) feel after a couple of weeks of....

Hanes: Very smart.

H.M.Jr: What?

Hanes: A smart thing to do. What should I tell this - shall I tell Forrestal just to come down?

H.M.Jr: Just to come down.

Hanes: He's going to call me.

H.M.Jr: I don't know where he'll fit in with us, but the President seems to want to just have him in.

Talking in the room here, when you get at these things - I mean I can say this without being misunderstood - after all, take the SEC; on a really big thing - well, I don't think that they have any really big financial brain over there. Just call a spade a spade. There's a lot of people that have got a lot of ideas, but there isn't any first-class financial brain, and we're up against the biggest show in the world. So he calls on us; I want to be ready.

Caston: And there's a difference between police work and operation.

H.M.Jr: Oh yes.

And, Mac, either you or the other fellow - they've just got to - and Bell - they've just got to be - what I want to do is, I want to be just as free as possible from the regular Treasury detail. And Hanes will be here knowing every move that I make and advising me, so forth and so on, so if I'm taken sick or anything, why, you know everything that I do, see? I mean I've got to have an understudy. I mean if something - I mean the show's got to go on whether I'm sick or well. Huh?

Hanes: (Nods affirmatively).

H.W.Jr: And I'd like to have a smooth running organization if I happen to be taken sick for a couple weeks; the show goes on just the same.

Kolt: You didn't say anything over there about.....

H.W.Jr: Mac, I haven't got the nerve to. I did it three times. But, for instance.....

Kolt: I'll talk to him tomorrow; I've got a date.....

H.W.Jr: I just haven't got the nerve to tell the President of the United States, with a world war on - say to the President, "You want an assistant, but you can't have him because I need him more than you do." I just can't say that.

Kolt: I'll find out tomorrow.

H.W.Jr: I do think for his sake, your sake, and mine, you ought to fish or cut bait; you ought to be in the White House or you ought to be in the Treasury.

Kolt: All I got from him - he indicated he expected me over there. All I got from the White House this morning was that he expected me over there.

H.W.Jr: (On phone) Hello.  
(Conversation with Earle Bailie, not recorded.)

H.W.Jr: All that Earle wanted to make sure was, was he staying with me or not? He said, "I wouldn't think of imposing on you."

Hanes: "But I'm staying with you."

H.W.Jr: What?

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Hanes: "But I'm staying with you."

H.M.Jr: He asked me if I had my regular apartment at the hotel.

Gaston: That reminds me of a telegram I saw yesterday.

Wlots: Yes, Mr. Gaston is thinking of a particular telegram.

H.M.Jr: No, I was delighted with the attitude of the President.

Hanes: Did anybody get in touch with all these people?

H.M.Jr: I told Miss Spangler, the operator; that's what she's doing now.

Hanes: Swell. I just wondered what Harris said. He's been home sick with a sinus.

H.M.Jr: (On phone) How about Basil Harris? - - Any of them - if they ask to talk to me, with the exception that I'm going to see the press at a quarter of five - but with that exception..... Well, you're handling it all right. Anybody turn you down yet? - - - Thank you.

Now, Mac, between you and your assistant, you've got to house these people when they come, and I'm not going to worry about it. I don't care who you move out. Each of these people has got to have a room, and has got to have a room for a secretary. I wanted a study room. I told you just before I left. I was not going to worry - I told you once, and either you or Thompson was going to do it. You've got to do it. I thought everything would be fixed down here.

Wlots: Where?

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- H.M.Jr: We were going to have a conference room below me, with the elevator going down, so I can go down and not have all the newspaper men see me.
- Klotz: Well, who sees you?
- H.M.Jr: Nellie Tayloe Ross is down there. The whole thing was to be done.
- Bell: The Budget was delayed in getting out because of a State Department mix-up, and they lost some space because of this war situation; State Department got some of it back.
- H.M.Jr: Incidentally, I had a chance to talk to Edison - I don't know who handled it - and he was simply delighted the way we handled that depreciation business. And Johnny, is that committee in Internal Revenue that handled that depreciation?
- Hanes: Yes.
- Foley: Yes.
- McR: Yes.
- H.M.Jr: Have you called them, for instance, on how they handled that order for Allison Motors and the rest of that stuff?
- Hanes: I haven't, no.
- H.M.Jr: I wish you'd make a note of that. Would you take that as your personal one - because if we could do the same thing - I don't know how it worked out, for instance, but if we could get these war orders going and let these fellows increase their plant and write off 50 percent then at the end of the time that the model is worked out, it might make just the difference of day and night to these concerns. That's - if you sort of personally go into that - will you?
- Hanes: I'll go into it, find out, give you a report on it, yes.
- H.M.Jr: And see that the War Department and the other people - if they need increased plants. You let them

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write off 50 percent, didn't you (Foley)?

Foley: (Nods yes).

H.M.Jr: And then at the end of the contract, which was four years, our engineers go in....

Foley: ....and determine what the value would be.

H.M.Jr: And on the basis of that, the steel companies invested six millions?

Foley: I think that was the figure.

Hanes: Have you got a memorandum on how they did it for the Navy, Ed?

Foley: I think that we have a memo in the file of that conference, yes. I'll get it for you.

H.M.Jr: That might very well be a bottleneck. That's Internal Revenue. If you could get into it, you might be able to do not only the countries but, as a matter of fact - do a great service. Johnny, take that as your baby. Do it right away.

Mr: You see, we had Edison over here, and Johnny was here.

H.M.Jr: Oh, Johnny was here.

Mr: No, no, Johnny wasn't here. No, he wasn't.

Foley: He was on vacation.

H.M.Jr: The story briefly - I'm sorry - the story briefly....

Hanes: I know what's involved. But I don't know exactly what the point is. We talked about it. I haven't the memorandum in your files.

H.M.Jr: Our people turned them down and I got mad and said, "Don't tell me how not to do it, tell me how to do it." Ed thought up a new way. They put it up, and it went through, and these companies have invested six million dollars. They allowed a depreciation of 50 percent. You ought to take a look at it, and I think for all these war orders going through, people wanting to expand plants,

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all the rest of that - it's a terrifically important spot.

Hanes: That committee - you mean down in the Bureau.

Kieley: The press are waiting now.

H.M.Jr: All right.

Well, John, will you be back at five, please?

Hanes: I'll be right here. I'll be right here.

H.M.Jr: I mean I want you to sit in on this Normandie business. And who else will sit in on that? Foley, Gaston.

Gaston: Yes.

September 4, 1939

5 p. m.

Present:

- Mr. Hackworth, State Department
- Admiral Land, Maritime Commission
- Mr. Truitt, Maritime Commission
- Admiral Waesche
- Mr. Gaston
- Mr. McReynolds
- Mr. Hanes
- Mr. Foley

HM, Jr: Well, Admiral Land, at lunch today talking with the President, I raised the question of buying the NORMANDIE, and he said that's strange; he had the same idea two days ago and he asked me to handle it for him, working in some way with the war debts.

At Cabinet he discussed it and got approval of the Cabinet and he also said, "We will make an offer to buy the QUEEN MARY.

The two Ambassadors are coming at 5:30 -- the British and French. Between now and then -- have you had a chance to look at Foley's memo?

Admiral Land: Yes.

HM, Jr: Mr. Hackworth has not. Will somebody give Mr. Hackworth a copy. Will somebody give Waesche a copy.

Mr. Truitt: John Franklin called from New York early this morning and said he had been approached by representatives of the company who owned the NORMANDIE and that they had offered the NORMANDIE to the United States Lines for sale and I was in Secretary Hull's office at the time and we discussed it there.

HM, Jr: Mr. Hull reported that at Cabinet and

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the unanimous opinion was this was a much better way to do it. He did not say who it was, but described this case and Mr. Hull said he would much rather have it done this way -- the way we are talking, than to have some private person buy it because the thought was to turn it over to the Maritime Commission to operate and when we got through a South American line, but Mr. Hull reported that and they did not like that. They said they liked this better.

Mr. Truitt: Of course the answer to that is the United States Line does not have money to buy the ship.

Mr. Foley: Why don't they borrow it?

Mr. Truitt: Where?

Mr. Foley: From R. F. C.

Mr. Truitt: You could not borrow \$25,000,000 from Mr. Jones for that ship.

Mr. Foley: I am assuming the Government wants to do it not as a business venture, but to get the ship.

HM, Jr.: Admiral, have you had time to turn it over in your mind?

Admiral Land: Oh, yes. I don't say I know all the case, and the things that bother Truitt and me are more legal than financial. The main point is if war having been declared, if this were purchased after war were declared, she might be treated as belonging to her former owners and therefore they would not respect the flag. If we want to assume that responsibility, that would clear it. But that responsibility exists under international law.

Mr. Truitt: Mr. Hackworth is here and whatever he says is the law is the law so far as I am concerned.

Mr. Hackworth: I did not know what we were going to talk about, but as I recall the situation, the law is that if the sale is made bona fide and not for the purpose of evading capture, then it is a good

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sale. I don't know how you would ever prove it was for the purpose of evading capture or that it was not.

Mr. Truitt: The vessel has been in the port of New York since two or three days before hostilities opened.

HM, Jr: The feeling of the President and of the Attorney General, who discussed it, I suppose was that well, it was a good buy and a good bet.

Mr. Truitt: Yes.

HM, Jr: And they would be two very useful boats to have. That's got nothing to do with the law.

Admiral Land: It's a good buy if you are looking several chapters ahead. It's not a good buy economically at the present time, because 85% of the capital, or income, from those two ships comes from American tourists at any time.

HM, Jr: To answer you: what the President said -- he brought up the question of the LEVIATHAN. The President said the LEVIATHAN paid for itself ten times over during the World War, but when we tried it afterwards, no. We are looking ahead.

Admiral Land: As I say, then that's all right.

HM, Jr: But the thing we were talking about, I was talking about, was credit on our war loans.

Admiral Land: I don't want to inject any sour notes on this of what I wanted or what the Maritime Commission wanted. I would darn sight rather have the BREMEN.

HM, Jr: You may get that too.

Admiral, I don't want to get too confused, but all I am going to say, unless Mr. Hackworth advises me against it, is to ask these two gentlemen when they come in at 5:30, would they find out from their Govern-

ments would they care to sell the NORMANDIE and QUEEN MARY to the United States. And that's all I am going to say. That's all right, isn't it?

Mr. Hackworth: That's all right. That could not do any harm.

Admiral Land: Under the present law there is an interesting sideline. Under the present law we could not subsidize that vessel, either one of them, because they are built abroad. So if we handled them -- we could not do anything for some private line to operate -- we would have to operate them ourselves under the managing agency agreement. That's not a great hurdle, but that happens to be the law. The American Lines or any other line could not take these ships over with any help from us.

Mr. Hanes: Could you operate them and farm out the actual operations on a commercial basis?

Admiral Land: We could farm it out, but under the managing agency agreement we would operate them ourselves.

Mr. Truitt: The plain truth is there is no place to operate the ships at the present moment.

Admiral Land: No. Under present conditions. Because that's their job, 85% of it, carrying American tourists.

Mr. Truitt: No other place except the Northern Atlantic to get people back. No other place where you have that on a consistent basis.

HM, Jr: Ed, just sketch the method so we all understand it. Just sketch the method of how to handle it. See if we all understand it.

Admiral Land: I don't see anything wrong with the method Mr. Foley has worked out from a legal point except the thing I first raised which I don't think ...

Mr. Truitt: I would go awfully slow by working

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through the American Presidents Lines. I think it would be a mistake. We are supposed to be very frank about this. I think that situation is none too wholesome in its entirety anyway.

Mr. Foley: The one reason, Max, I picked the American Presidents Line was out of a hat; was because I had no direct power to acquire title to these boats in the United States. We have to go around the barn. The only line that's almost entirely controlled by the United States or an agency of the United States is the American Presidents Line. You own 90% of the stock. Therefore you control the Company, and it's much easier to operate that way than through the United States Lines or some private line where the United States has no controlling interest.

Mr. Truitt: Suppose you do that and the American Presidents Line borrows money from R. F. C. Where will it ever get the money to pay the interest on that note? It can't operate the ship to earn money to pay the note. It does not have any cushion in its capital to carry any more than it has. So where would it get the money to pay the note? Very soon you would have the R. F. C. with the note by a subsidized operator that would be in default which would make it illegal to pay the operator the normal subsidy and therefore the other 13 lines which the Company runs would be out of operation and you would have an essential service to the Orient wiped out and a service around the world.

Mr. Hanes: Any way you can have the American Presidents Line avoid paying any charge on the debt?

Admiral Land: I raised the point of the Managing Operators Agreement and I don't say you can necessarily pin that on the American President. You could do that on anybody.

Mr. Hanes: Suppose the Navy had the money.

Mr. Truitt: What about the Panama Railroad?

Mr. Foley: Navy can't do it, John. They haven't the money.

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Mr. Hanes: If they had the money ....

Mr. Foley: .... and the power. We have not got it. The Navy has not. That's why. We have to go this indirect way.

Mr. Truitt: I don't think anybody in the Government has the power to step out and buy a ship.

HM, Jr.: You can't do it as a credit on the war debt?

Mr. Foley: Sure you can, if the British and French will do it. That's the scheme right here. I don't know whether they will do it.

HM, Jr.: The only thing I say to these two people is "We are ready to take the NORMANDIE and QUEEN MARY for 'x' millions of dollars and just give you credit on the war debt for that much." None of this stuff in this memorandum.

Mr. Gaston: I think that would be a good idea. Then they would come back with a dickering proposition. They might want all cash paid. Might do with half cash.

HM, Jr.: That's your negotiation.

Mr. Gaston: That's your dickering with them. Whether you give them credit on the war debt or give them something on account. That has nothing to do with the mechanism of getting title in the American Corporation.

HM, Jr.: But for me, talking to them, so they can't say "You talked one thing that sounded like money and then talk credit". If I say we want to know (one) would you be interested in selling these two ships to the American Government on a basis whereby we would give you a credit on the debt that you owe, say for a value that would be arrived at.

Mr. Truitt: And we get the title.

HM, Jr.: And we get the title. Does that sound all right?

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Mr. Hackworth: It does. Have you studied the question of whether you can take something other than money on the debt?

Mr. Foley: Yes, we have. We can't.

Mr. Gaston: But you have a plan for taking it in money there.

HM, Jr.: There are two kinds of debt, war debt and debt for materiel. Have you looked that one up? We sold them \$400,000,000 worth of supplies. In France.

Mr. Foley: I was thinking primarily of the war debt.

HM, Jr.: Well, suppose we take a little junk back.

Mr. Foley: I think the opinion would be the same, but I will check it.

HM, Jr.: But as far as the Treasury is concerned, I want to be careful I state it to them we take title to these ships and give them credit on their war debts.

Mr. Truitt: If you can work that, work the one with the Germans too.

HM, Jr.: What's that?

Mr. Truitt: The BREMEN and the EUROPA.

Mr. Foley: Great Britain might want to give us the EUROPA.

Mr. Truitt: We might trade it to her for cotton!

HM, Jr.: Jerry (Admiral Land), the other thing, I did not know whether you want Coast Guard to man this ship.

Admiral Land: How far ahead are you looking to use her?

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HM, Jr: When mentioning Coast Guard I had in mind sending over to clear all American refugees out of Europe. Now.

Mr. Truitt: Before I would ever go that far I would want to have the best advice Mr. Hackworth has on whether the Germans would respect our title to the vessel.

HM, Jr: I am just raising the question. To crew and man. He would man it. Because their engine is the same as Coast Guard's. I want to give you that.

Admiral Land: If it does not involve any legal complications I know not of, that would be a good way to handle it. I would like to couple that with the need for getting refugees back from Europe.

HM, Jr: We are talking in terms of hours, that these fellows will give us an answer and maybe we will take over the NORMANDIE in the next 24 hours, repaint it, American flag, repaint the tunnels and man her and send her over.

Admiral Land: Do you think conditions are so serious as to justify that? If title is clear and the Germans respect you and not treat her as a French ship, why swell!

HM, Jr: Well, all I can answer is we discussed it at great length at Cabinet and the opinion was unanimous that if we could get her we would take a chance. After all, the President tomorrow morning and Mr. Hull may feel differently, but at 4 o'clock this afternoon we discussed it for half an hour and the Attorney General agreed it was a good bet.

Mr. Hackworth: We had two cases in the World War of ships that were tied up in Galveston. I think both in the same Port. And an American citizen bought them. He bought the DACHE and started out with a load of cotton to Frankfort and the ship was seized by France and condemned. They paid for the cotton. The SIGARANZA was held up by the British

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and taken into port, but, as I remember, it was released; did not question the title; ship was released, but the goods were held.

Admiral Land: Were they purchased before war was declared or after?

Mr. Hackworth: No, after. They said this was a fictitious transfer and we were never able to shake them loose on that proposition. So France still owes the claim for the ship. We have doubts whether it's a good claim or not.

HM, Jr: Mr. Hackworth, all of that does not, in your opinion, does not prevent me from asking these people .....

Mr. Hackworth: ... Not at all.....

HM, Jr: .... to speak to their Government and that gives us at least 12 or 18 hours to explore the thing and inasmuch as -- well, everybody here is available and we don't step on each other's toes, Admiral Land, Mr. Hackworth, Mr. Foley, kind of get together, and whenever you people are ready, if you were satisfied, we could have another meeting here.

Admiral Land: Yes. I would like to go over with Waesche the question of manning her.

HM, Jr: Everybody here is available. Will you (Admiral Land) take the initiative after we have seen the Ambassadors so that we keep working?

Admiral Land: Oh, yes!

HM, Jr: I want you all to stay when they come. Don't you think so?

Admiral Land: All right with me.

Mr. Hackworth: I think it would be fine, but I think they might talk more freely just to you.

Admiral Land: I think so too. I think it would be better if you handled it.

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HM, Jr: I would like you (Hackworth) to stay.

Mr. Truitt: Only one question, who is going to pay the bill? On this question of repatriation we have not felt that the circumstances abroad justified sending any extra services over there and at the last meeting where I was with Mr. Breckenridge Long we understood that was true. Our plan had been approved right straight along. Maybe that situation has changed.

HM, Jr: I did not get, the way the President was talking, he had a message from Kennedy and Bullitt ..

Mr. Truitt: I know. He has been getting these messages right along.

Admiral Land: That's why I ask is the emergency great enough to justify it. When I talked to the President on Saturday I gave him the information that with the present facilities we would be able to vacate all American citizens who were willing to come home by the 4th of October.

HM, Jr: I can only repeat, Admiral, we must have discussed it for half an hour. I don't think they are just looking ahead for weeks.

Admiral Land: As I say, Saturday and Monday are two different days and there are a lot of them don't want to come home and are not coming. We sent 383 over there Saturday on the MANHATTAN, at 12 o'clock Saturday afternoon, for the War Zone or any place they wanted.

Mr. Hanes: Ought to disallow them to come back.

Admiral Land: Those are facts because you can't estimate the movement either way because it's coming both ways still.

Mr. Truitt: I think I might also say that the State Department and the Committee working under Mr. Hull and under-Secretary Welles have taken the position, and it's a traditional position, that there

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is no obligation on the Government to bring any of these people home. First. And the second, it's a private situation between traveler and the transportation company and that the only thing thus far to be done is coordination.

HM, Jr: That's one thing. I have got a mission. I am going to try to buy these two boats.

Mr. Truitt: My remark is only directed to your statement that the Coast Guard would man it.

HM, Jr: Do you (to Admiral Land) want to take Waesche into Gaston's office to talk to him. Foley will work on the legal thing.

Admiral Land: Yes, sir.

HM, Jr: Leave it this way: that when you are ready give me a ring and if I get an answer I will give you a ring.

Admiral Land: Yes, sir.

HM, Jr: And I would like you (Hackworth) to stay.

(All left except Mr. Hackworth who remained for the meeting with the Ambassadors, which followed immediately.)

September 4, 1939

5:30 p. m.

Present:

British Ambassador  
French Ambassador  
Mr. Hanes  
Mr. Hackworth

French Ambassador: You just got back, Mr. Secretary?

HM, Jr: At five o'clock this morning.

British Ambassador: Was your trip very rough?

HM, Jr: Oh, terribly! It was a 2,000 ton boat. She makes 20 knots an hour. We left Bergen Tuesday evening. I was at St. John's yesterday at one o'clock.

British Ambassador: Are you a good sailor?

HM, Jr: Not too good.

French Ambassador: Was Mrs. Morgenthau with you?

HM, Jr: No; she's on the Bergensfjord.

British Ambassador: You are almost as heroic Pilgrim Fathers.

HM, Jr: That's what I thought. We hove to for two hours. We had very rough weather.

I hope you don't mind my making notes. I make only one copy and it is kept in my safe. If you have any objections I won't do it.

British Ambassador: None whatever.

HM, Jr: Gentlemen, the reason I asked you to come down -- of course, whatever we say is confidential -- at Cabinet the President authorized me to speak to you two gentlemen to inquire from your Government whether you would care to dispose of the NORMANDIE and the QUEEN MARY to the United States Government for credit on the war debt. And if you would care to inquire from your Government we would like to know whether it would interest you. That is the whole story.

British Ambassador: Yes.

HM, Jr: I don't know whether you care to ask me any questions.

French Ambassador: One question. I don't quite get the technical meaning of the credit on the war debt.

HM, Jr: Let's say -- I don't want to name a figure; let's use \$1,000,000 or \$1.00, whatever the value we arrive at, and if we can get (and that's what Mr. Hackworth is here for) a good title to the NORMANDIE, we then would credit you with having paid \$1,000,000 on your debt to the United States Government. No money would pass. We would just credit you with that amount of money.

British Ambassador: That would not involve equivalent credits for purchases on this side?

HM, Jr: No, it would not. Very definitely, Mr. Ambassador. It would not.

French Ambassador: That would be payment on our debt.

HM, Jr: On your debt. But it would not involve credit for purchase of material. I would like to make that clear. But we are here and we feel at this time if you people aren't going to use these steamers we can make good use of them and I don't know

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whether it would interest your Government, but "nothing ventured, nothing gained".

British Ambassador: I don't feel in position to express any opinion.

HM, Jr: I would not expect you to, but I am authorized, and the reason I am doing it rather than some other Department is because it does come in with the war debt question.

British Ambassador: Yes; certainly.

French Ambassador: Of course I will notify my Government. I feel we must take into account opinion in France and England would think of it and I feel it would be a good thing to create (?) what will be impression on the opinion here, because as you know the NORMANDIE for us is really kind of National treasure and our people would probably believe that our Government should explain to them why that has more interest.

HM, Jr: You have been in America long enough to know a little American slang. I am not going to try to "sell you this proposition". You understand that?

French Ambassador: Yes.

HM, Jr: I am just offering it as a suggestion, but I am not going to try to argue for it.

French Ambassador: Uhm.

British Ambassador: We will just .....

HM, Jr: If you will communicate, and when you are ready would you mind giving me a ring?

British Ambassador: As soon as I get an answer.

French Ambassador: I will communicate at once.

oOo-oOo

# TREASURY DEPARTMENT

179

INTER OFFICE COMMUNICATION

DATE September 4, 1939.

TO Secretary Morgenthau

FROM Mr. Gaston



A Proclamation of Neutrality will impose some additional duties on the Coast Guard since Coast Guard officers will be required to cooperate with collectors of customs in examining ships to determine whether they are armed and whether the armament is defensive or offensive. The Coast Guard might be able to take care of this additional responsibility without any very substantial increase in force, but if the Neutrality Act should be amended so as to permit the export of arms and ammunition, the Coast Guard would then have the duty of supervising the export of explosives. This would take about a thousand additional men.

In view of the probability that this action may be taken, Waesche would like to begin immediately to recruit men, to do which it would be necessary to get permission of the Bureau of the Budget and no doubt permission of the President to increase current expenditures within the annual appropriation looking to a deficiency appropriation.



SEP 5 1939

My dear Mr. Secretary:

I have your letter of 4 September, 1939, relative the dispatching, at the direction of the President, of two Navy destroyers and two Coast Guard cutters to a position on the Trans-Atlantic ship lanes in longitude approximately fifty-five for the purpose of rendering assistance to ships in case of need.

The Coast Guard cutters BIES and CAMPBELL are being assigned to this duty today.

Captain W. H. Shea of the Coast Guard, who has an office in the Navy Department, will continue to act as liaison officer.

Cordially yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

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

File to Mr. Thompson

*By hand*

Secretary Morgenthau  
E. H. Foley, Jr.

September 4, 1939

For your information

Supplementing my memorandum of this afternoon, it is suggested that as an alternative to the use of the American President Lines Inc. there might be employed in the Normandie transaction as purchaser the Panama Rail Road Company.

The Panama Rail Road Company is a New York corporation created by Chapter 284 of the Laws of 1849. That Act authorized certain individuals to form a corporation "for the purpose of constructing and maintaining a railroad, with one or more tracks, and all convenient buildings, fixtures, machinery and appurtenances, across the Isthmus of Panama, in the Republic of New Granada \* \* \* and of purchasing and navigating such steam or sailing vessels as may be proper and convenient to be used in connection with the said road." By Chapter 364 of the Law of 1855 the corporation was granted certain additional powers and permitted to increase its capitalization to an amount not to exceed \$7,000,000.

In 1904, the United States acquired the entire capital stock of the corporation and ever since has been the sole owner thereof. In an opinion of the Supreme Court of the United States in 1937, the Court stated that "the company operates a railroad across the Isthmus, conducts a commissary establishment for the benefit of the personnel of the Panama

Canal, the railroad company, and the armed forces of the United States upon the Isthmus, and operates a dairy and two hotels in connection therewith. It also operates a line of steamships between New York and the Canal Zone \* \* \*. Since the acquisition of the railroad company by the government, the directors, thirteen in number, have been elected by the Secretary of War, as sole stockholder of record of the corporate stock with the exception of thirteen qualifying shares held by the directors.\*

Under New York law power is conferred upon every railroad corporation "from time to time to borrow such sums of money as may be necessary for completing and finishing or operating or improving its railroad, or for any other of its lawful purposes and to issue and dispose of its bonds, secured or unsecured, for any amount so borrowed; and to mortgage its property and franchises to secure the payment of any debts contracted by the company for the purposes aforesaid, notwithstanding any limitation on such power contained in any general or special law." (Railroad Law § 81, Subd. 10, underlining mine).

It would seem, therefore, that the Panama Rail Road Company has authority to borrow money and issue its obligations for the purpose of financing the purchase of the Normandie even though the Normandie might cost in excess of \$7,000,000.

See N.Y., N.H. & H. R.R. Co. v. Walsh, 143 N. Y. 411, 415.

The purchase of the Normandie would be affected in the same manner as outlined in my memorandum of this afternoon dealing with the powers of the American President Lines Inc. Section 55 of the Public Service Law of the State of New York may require that the approval of the Public Service Commission be obtained prior to the issuance of the securities of the Panama Rail Road Company.

A typewritten copy of the charter and by-laws of the company is attached.

(Signed) E. M. Foley, Jr.

CLK: Typed 9/4/39