

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

—•—

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 V. LAWRENCE, GOUVERNEUR KEMBLE, THOMAS W. LUDLOW, DAVID THOMPSON, JOSEPH B. VARNUM, SAMUEL S. HOWLAND, PROSPER E. BETMORE, 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. This 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

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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.

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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

**** *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

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

= 3 =

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.

September 4, 1939
5:50 p.m.

198

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Hello.

Jesse Jones: Hello. Well, you finally made it, huh?

HMJr: I made it, Jesse.

J: God, you -- you had quite a time, didn't you?

HMJr: Listen, anytime you've got somebody you don't like, let me know, and I'll send him across the ocean in a Coast Guard cutter. (Laughs.)

J: (Laughs) In a Coast Guard cutter. Well, you've got more courage than I would have had.

HMJr: Well.....

J: I wouldn't try to cross that pond in one of those things.

HMJr: Well, I think I'm pretty good myself. Well, you just let me know sometime anybody is bothering you and I'll send him over.....

J: All right, I -- I'll (laughs) get up a list, Henry.

HMJr: (Laughs)

J: I think I could get a list.

HMJr: I think maybe I need two cutters.

J: Yeah. I think it would take at least two.

HMJr: (Laughs)

J: Well, I'm delighted you're back.

HMJr: Yes.

J: And I hope you're feeling all right. I know you must have had a devil of a trip.

HMJr: Yeah, well I want to see you soon.

J: I hope to see you just as soon as you're -- it's convenient for you.

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HMJr: Well, how about Wednesday for lunch?
J: It will be fine for me.
HMJr: All right, we'll have your favorite food.
J: I'll come by.
HMJr: Wednesday for lunch.
J: Wednesday for lunch.
HMJr: Do you want.....
J: O. K.
HMJr: Goodbye.
J: Thanks.

PAP

PLAIN

BERLIN

Dated September 4, 1939

Rec'd 1:30 a.m. Sept. 5

Secretary of State

Washington

1049, September 4, 9 a.m.

The German press quotes Reichsbank President and Economics Minister Funk as saying that because of the confidence of the public and the present strong system of control the Reichsbank needs to take no special measures to protect the value of the mark or to insure regularity in monetary and credit transactions. It is asserted that the increase in the note circulation is entirely normal given the circumstances and that the German Government has full control over prices and wages. As confirmation Funk referred to the firm tone of German stock exchanges. Funk's remarks are amplified by presumably approved editorials in certain papers notably in the BOERSEN ZEITUNG of yesterday morning which asserts that in contrast to England's action Germany will not engage in "policy of monetary adventure" and that the German Government will "maintain wages and guide prices". Then a curiously worded statement appears that "where free purchasing power makes

PAP -2- 1049, September 4, 9 a.m. from Berlin

makes its appearance we will stop (inflation?) through lowering prices - to take away any advantage from speculators - and through taxes and also through bond issues in order that purchasing power released shall not go astray".

The Reichsbank statement for August 31 shows an increase in Reichsbank note circulation during the last week of the month of 2,197,000,000 marks to a total of 10,907,000,000 marks. For the first time in years, however, no estimate of the total currency circulation is given, figures for the circulation of coinage and Renten bank notes being omitted. Normally the circulation of subsidiary notes and coins totals about 2,200,000,000 marks. It is probable however that an even greater amount of such currency is now in circulation since the Reichsbank statement of assets shows a decrease during the past week in its holdings of fractional currency of 102,000,000 marks and in Renten bank note currency of 5,000,000 marks. Altogether it would seem probable that the total currency circulation was well in excess of 13,000,000 marks as compared with 11,200,000,000 at the end of July.

The Reichsbank clearings which are the chief index of monetary velocity in Germany were 1,298,500,000 marks in August as compared with 103,905,000,000 marks in July and 115,058,000,000 marks in June. The Reichsbank's
holdings

PAP -3- 1049, September 4, 9 a.m. from Berlin

holdings of bills and checks had a record increase during the week of 2,132,000,000 marks to a total of 10,272,000,000 marks which compares with a figure of 8,460,000,000 on July 31.

Repeat to Treasury.

KIRK

JRL:CFW

MDM

PLAIN

London

Dated September 4, 1939

Rec'd 2:00 p.m.

Secretary of State,
Washington.

1:40, September 4, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The official rate for the pound tomorrow will be 4.02 - 6.

2. A brief summary of the more important recent British financial measures may be useful. They have had two distinct objects: (A), to facilitate the transition from a peacetime to a wartime basis of organization of the City and (B), the strengthening of the financial sinews of war. In the former category fall the prewar measures of raising the bank rate, unpegging sterling, compulsory listing of foreign securities, closing of the stock exchange, the decentralization of City institutions as between London and the country and the arrangement whereby the Bank of England will advance, if necessary, the funds to pay at maturity all approved bills accepted before September 3. In the second category falls the extension of the resources and powers of the British Equalization Fund, the loan provision

-2- 1440, September 4, 7 p.m., from London.

provision of £500 million, the prohibition, except by permission, of the export of bank notes, gold, securities and foreign exchange--with the complementary measures restricting the availability of exchange to reasonable trade requirements and requiring persons resident in the United Kingdom to sell to the Treasury any gold or free foreign exchange at their disposal and the prohibiting of fresh capital issues involving new money unless it can be shown to be in the national interest.

The text of the order to help the London discount market is as follows:

"The Chancellor of the Exchequer announces that the following arrangements have been made with a view to maintaining essential financial services in the present emergency.

These arrangements apply to approved acceptors whose bills are normally discounted in the London discount market and are intended to supplement the general provisions embodied in the Courts (Emergency Powers) Act 1939:

1. The Bank of England will advance where required to such acceptors through their bankers the funds necessary to pay at maturity all approved bills accepted before September 3, 1939. This course will release the drawers and endorsers of such bills from their liabilities as

parties

-3- 1440, September 4, 7 p.m., from London.

parties to these bills but their liability under any agreement with the acceptors for payment or cover will be retained.

2. The acceptors will be under obligation to collect as soon as possible any amounts recoverable by them in respect of the transactions to which the bills relate and to apply such amounts to repayment of the advances made by the Bank of England. Interest will be charged upon these advances at 2 percent above the ruling bank rate from time to time and in no case less than 6 percent. The first interest payment will be on March 1, 1940, and thereafter half-yearly on September 1 and March 1. Interest if unpaid on the due dates will be capitalised forthwith and interest thereon will be charged at the prevailing rate for the advance.

3. Advances and interest will constitute a floating charge on all the assets of acceptors in favour of the Bank of England ranking in priority to all other floating charges, whether under statute or otherwise on their assets. The Bank of England undertake, however, not (except in cases of insolvency or liquidation) to claim repayment of any amounts not recovered by the acceptors for a period of six months after such date as His Majesty may, by order
in

-4- 1440, September 4, 7 p.m., from London.

in Council, declare to be the date on which a state of war emergency has ceased to exist."

A similar provision was made in 1914 when outstanding acceptances of acceptance houses, foreign banks and the joint stock banks totalled perhaps as much as £400 million. During August the combined acceptances, endorsements, et cetera of the clearing banks, which today represent a much larger proportion of the total business, were little more than £122 million. Therefore, the advances by the Bank of England may not be large; most institutions have built up reserves against standstill but some discount houses will be seriously affected. How far the Bank will help in this matter remains to be seen. No date has yet been set for the opening of the stock exchange.

KENNEDY

ALC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 4, 1939, 7 p.m.

NO.: 1780

FOR THE TREASURY.

This afternoon we called at the Bank of France and found that for the most part it was deserted; we were doubtful that most of the Bank personnel had already been transferred to the area around Buyelguyon, Puydedome in Central France - this location to be kept in the strictest confidence. However, the Governor and our contact and other higher officers are planning to remain in Paris for the time being.

There was less pessimism on the part of our friend than on Reynaud's part concerning the ability of the British to maintain the pound at 4.04. He felt that they would not have much difficulty with that rate for some time in the future. He mentioned that the British had undoubtedly been prevented from seeking a lower rate because of the necessity of large purchases of war stocks abroad. He said that the franc-pound rate would be about 175, and about 43-45 would be the dollar rate. The fund had not had a bad day today, he said. Despite the payments abroad for war stocks, the loss on balance for the day will be small, he said.

There was discussion with him about plans for financing the war. A liberal policy of direct discounts by the Bank of France is favored by our friend, rather than advances on too

large

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large a scale by the Bank to the Treasury. He said that such advances would of course never be repaid, whereas they had about one chance in a hundred of collecting something on the discounts. Our friend would not make any predictions on the amount of money which could be raised through defense bond subscriptions. The rapidity with which war expenditure money flows into circulation would determine this. In this regard, he said that the British were fortunate because it was a national habit in Great Britain not to hoard banknotes. For two days of last week, in France more than ten billions of deposits were withdrawn. However, the worst is over now, ^{feels} he/ and today actually withdrawals were not as great as deposits. It is also our understanding that some 11,000,000 francs of the Caisse de Depots et Consignations are available to the Treasury.

He talked at length with pride and emotion of the spirit displayed by the French people at this critical time and of his complete confidence in the ultimate outcome, a confidence which he based not on comparative military strength but on the moral issues involved and the quiet determination of France. We can only emphatically agree that his pride in the remarkable calm and unanimous determination of the people of this country has been amply justified.

Reference the Embassy's telegram No. 1742 of September 2, 7 p.m. - therein it is stated that the Bank of France plans to

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to set up an office in the Loire Valley to handle service in foreign exchange and operations in central rediscounting. The greater part of the personnel of American banks will remain after mobilization here in Paris, but in order to maintain direct relations with their clients, these banks will transfer to the Loire Valley their actual physical assets, bills, and so on. The Paris offices, i.e., will be the "branches" and in Paris only paper work will be done. Morgans has deposit vaults at Niort, also, and most of their assets have already been moved there. At Nantes Guaranty has similar facilities.

END SECTIONS ONE, TWO AND THREE.

BULLITT.

EA:LWW

VM

GRAY

Paris

Dated September 4, 1939

Rec'd 8:15 p.m.

Secretary of State
Washington.

1780, September 4, 7 p.m.

SECTION FOUR

The Bourse opened as usual but there was little or no trading. The Bank of France was still a buyer of dollars at 41 point seventy five and sterling at hundred and 75 point fifty five. The rates were largely nominal however and there were practically no transactions. Brussels was the only point with which communication could be maintained and the rates announced to the National Bank of Belgium were quite out of line with the foregoing. They made the equivalent of forty four point sixty French francs for the dollar and three point eighty five to three point ninety five for the dollar pound cross rate. The belga was quoted in Brussels at seven point sixty three against the French franc compared with the bank operated quotation of seven point twelve. Quotations here on the Securities Exchange held up well on light turnover falling
around

VM -2- #1780, September 4, 7 p.m., from Paris.

around five percent. Rentes were down about two francs.
The market was surprisingly calm.

BULLITT

KLP

PAP

GRAY

PARIS

Dated September 4, 1939

Rec'd 10:15 p.m.

Secretary of State

Washington

1780, September 4, 7 p.m. (SECTION FIVE)

The law authorizing the supplementary national defense credits approved by Parliament on September 2 (see our telegram No. 1742, September 2, 7 p.m.) was published in the JOURNAL OFFICIEL dated September 3. Specifically (one) a credit ("credit de paiement") of approximately 28,000,000,000 francs is authorized under the special armament budget for 1939, (?) (two) under the same heading the National Defence Ministries are empowered to "contact" expenditures totaling approximately 25,000,000,000 francs, to be charged to credits that will be opened under the 1939 budget and future budgets.

Under the same law a supplementary credit of about 17,000,000,000 francs is authorized for the national defense services and the colonies under a general budget for 1939.

BULLITT

CFW:NPL

HED

GRAY

PARIS

Dated September 4, 1939

Rec'd 6:21 p.m.

Secretary of State,
Washington.

1780, September 4, 7 p.m.

(SECTION SIX)

In presenting the Government's supplementary credits demands to the Senate Gardey, President of the Senate Finance Committee, pointed out that while the Government possessed the right under the special powers of March 19 last to decree these financial measures it was considered desirable, in view of the importance of the amounts involved, to obtain the explicit approval of Parliament.

Other measures decreed in the same JOURNAL OFFICIAL include arrangements for the requisition of enterprises, restrictions concerning relations with the enemy, declarations to be made by holders or guardians of enemy property, the sequestration of enemy property and notifications relating to articles considered as war contraband.

(END OF MESSAGE)

BULLITT

KLP

FEDERAL RESERVE BANK
OF NEW YORK

Noted

63(e)

A. L. Litchfield

214

OFFICE CORRESPONDENCE

DATE

September 4, 1939

TO CONFIDENTIAL FILESSUBJECT: Telephone Conversation withFROM L. W. KnokeBank of England

I telephoned Mr. Bolton at 12:05 p.m. and in his absence spoke with Mr. Hawker. I referred to our cables Nos. 464/39 and 465/39 sent by us on September 1 and Nos. 466/39, 467/39, and 468/39 sent September 2, and Hawker confirmed that they had been received. The last cable we had from them was No. 884/39. Was that correct? Hawker said that was all right.

I then referred to an article which had appeared in one of our morning newspapers to the effect that exchange regulations in England would become effective today. Hawker stated that they had already gone into effect yesterday. Banks were closed for general business today but would reopen tomorrow. The new office hours would be from 10 a.m. to 2 p.m. daily, except Saturdays when the hours would be from 10 a.m. to 1 p.m. Tomorrow the exchange control would fix exchange rates.

What were their plans in connection with forward contracts in sterling and other currencies? Hawker said that all contracts entered into prior to September 3 would be fulfilled.

I informed Hawker that the Queen Mary had arrived in New York this morning and that the Samaria had left Boston at 11 a.m. our time today and was due to arrive in New York tomorrow morning at 8 o'clock.

Hawker thanked me for calling and asked me to keep in touch with him.

JWCK:BOC

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

file 215

DATE

Sept. 5. 1939

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

For your information

You have asked over the telephone this afternoon if the United States has power to purchase the Normandie and apply the purchase price against the French war debt. The amount of the French war indebtedness is more than \$4,000,000,000. No power has been found for accepting property other than cash or French obligations in payment of such indebtedness.

While the Maritime Commission has power to purchase vessels under certain circumstances this power is limited to vessels owned by citizens of the United States. It is possible, however, that the purchase of the Normandie might be effected in the following manner:

1. The American President Lines Inc., ninety percent of the stock of which is owned by the United States, (or some other American steamship company) would purchase the Normandie from the French Line or the French Government under an agreement which would provide that the French Government would apply the purchase price on its war debt simultaneously with passage of title to the Normandie.

2. Whenever the President proclaims that the security of the national defense makes it advisable, the Maritime Commission would have power under section 902 of the Merchant Marine Act, as amended, to purchase the Normandie from the American President Lines Inc., (or some other American steamship

company). The Maritime Commission would pay the American President Lines Inc. (or some other American steamship company) the agreed purchase price for the vessel. It may be necessary for the Maritime Commission to obtain additional appropriations from Congress to effect this purchase.

3. If Government financing of the original purchase of the Normandie is necessary it would be possible to accomplish the purchase by a loan from R.F.C. to the American President Lines Inc. (or some other American steamship company). The R.F.C. has power to make loans to any business enterprise under section 5d of the R.F.C. Act, as amended. The R.F.C. could take a ship mortgage from the American President Lines Inc. (or some other American steamship company) upon the Normandie as security for its loan, and the money paid by the Maritime Commission to the American President Lines Inc. (or some other American steamship company) would then be used to repay the R.F.C.

Obviously, it will be necessary for the French Line or the French Government to satisfy us that it is in a position to pass good title to the Normandie and that there are no paramount claims of foreign or domestic creditors.

E. W. Foley Jr.

5 file

Secretary Morgenthau

September 6 1939

E. H. Foley, Jr.

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(Signed) E. H. Foley, Jr.

SEP 4 1939

Secretary Morgenthau

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(Signed) W. E. Sawyer, Jr.

EHF:is Typed 9/4/39

Conversation with Mr. Franklin in New York City

September 5, 1939
2:25 p.m.

221

HWJr: Hello.

Operator: Mr. Franklin.

HWJr: Hello.

John M.
Franklin: Hello.

HWJr: Mr. Franklin.

F: Yes.

HWJr: Henry Morgenthau, Jr.

F: Hello, Mr. Morgenthau.

HWJr: I hope you're in a good humor.

F: I'm in a good humor.

HWJr: Fine! Well, I've got an associate of yours sitting here, Basil Harris.

F: Yeah.

HWJr: And we need him desperately down here to handle the shipping thing for us -- all the ports, customs and all the rest of that sort of thing, and right now that's the key position to make sure that some of these countries don't break the Neutrality Act and go out with munitions and all the rest of that sort of thing, and the ports are the key places. And I don't know anybody that is as well-fitted as he is to handle that situation. And I've asked him to come down, and he's going to take the three o'clock train and go back and see you. And I hope your company is going to let us have him.

F: I can't hear you very well.

HWJr: I hope your company is going to let us have him.

F: Yeah. Well, you couldn't get a better man.

HWJr: That's what I think.

F: And -- I know, because he's been down there and he's done a good deal of talking with you all and we rather expected it. I'd like very much, if I may, to just go over it. Of course, you've got to have in these days just what you want, which is only right, and I'd like to be able to think it over and see what we're going to do here, and I'd like to have a little talk with him.

HQJr: Well, he's coming back tonight. He's sitting at my desk now -- to see you.

F: Yes.

HQJr: But this thing is popping every minute. We've got ships in our ports and the question -- we've got Coast Guard boats guarding them, and we don't want our ports abused.

F: Yeah.

HQJr: And while we're neutral this question of handling the ports is the key thing.

F: Yeah.

HQJr: And at the same time we want American ships to be able to go out. And.....

F: Well, why not -- would it be all right with you if he and I had a talk the first thing in the morning?

HQJr: Well, I don't -- let me just talk to him. (Talks aside.) Yes, he says he expects to see you in the morning.

F: Yes.

HQJr: But I -- I hope to have him back here tomorrow on the job.

F: All right, sir.

HQJr: And I hope you're going to say, "Yes".

F: All right. I don't -- I don't think I can possibly do anything else under the circumstances.

HQJr: Well, that's fine.

F: Thank you, but I do -- I would like to talk to him before absolutely committing ourselves.

HMJr: Well, I understand. That -- that's only fair.

F: Yeah. Thank you very much.

HMJr: Thank you so much and I hope to see you soon.

F: Thank you. Goodbye.

HMJr: Goodbye.

September 5, 1939.
3:20 p.m.

Mr. Moyle: Mr. Moyle.

James H. Moyle: This is Moyle.

Mr. Moyle: Can you hear me?

Mr. Moyle: Yes.

Mr. Moyle: This is Morgenthau.

Mr. Moyle: Yes.

Mr. Moyle: Commissioner, I hate to do this on the telephone, but conditions in the world are so bad and our job is so difficult that I didn't know whether you intended to stay on as Commissioner or not.

Mr. Moyle: Well, I would. I've never had better health; I've never enjoyed work more; and I never was better prepared to do the work.

Mr. Moyle: Well.....

Mr. Moyle: Therefore, I am on hand.

Mr. Moyle: Well, of course, you're not on hand -- I mean, you're out there and.....

Mr. Moyle: tomorrow. I've already notified Mr. Johnson. I left it with Mr. Johnson to advise me when I'd be needed there and I got a telegram from him this morning, and I answered it that I'd be there tomorrow.

Mr. Moyle: Yeah. Well, I don't -- I hardly think it's fair to me, in view of -- well, if I may say, your age.

Mr. Moyle: Well, I'll be there tomorrow, and I can talk to you about it.

Mr. Moyle: All right. All right. Well then, when you get in let's talk it over because.....

Mr. Moyle: Very well, sir.

Mr. Moyle: All right. Thank you.

September 5, 1939
5:22 p.m.

225

HMJr: Hello.

Operator: Mr. Frank.

HMJr: Hello.

O: Go ahead.

Jerome Frank: Hello.

HMJr: Hello, Jerome Frank.

F: How are you, sir?

HMJr: I'm fine.

F: Glad to know you're back.

HMJr: Fine.

F: Although I -- I think Johnny did a marvelous job.

HMJr: He did a fine job.

F: It was a pleasure to have him around.

HMJr: That's good.

F: I -- I've got a note from the President today.....

HMJr: Yeah.

F:asking me to have a confidential talk with you soon. I don't know if he said anything to you about it.

HMJr: No, he didn't.

F: I wonder if tomorrow sometime you could find a few minutes for me?

HMJr: Of course I can. Can you give me an inkling?

F: Yes, I'll tell you -- it -- I'll read you the note. It's responsive to a note I sent him. "I wish you would have a confidential talk with Henry Morgenthau who is just back and explain to him the present

situation in regard to the stock exchange, Mr. Martin's letter, and especially the creation of George Harrison's committee now headed by Mr. Potter. Tell H.M.Jr. that all of us are distinctly from Missouri and to watch out for a double play or a doublecross or something similar."

Now, that's got a background. It ties up with some efforts being made by the -- some of the boys on the stock exchange. I'll have to give you a background of it.

H.M.Jr.: Do you want anybody here when you see me?

F: No, I'd rather just talk to you alone.

H.M.Jr.: How -- is ten thirty a good time?

F: Ten thirty would be fine.

H.M.Jr.: I'll be delighted.

F: I'll be over then. Thank you.

H.M.Jr.: Ah -- you don't mind my sending that message, but I've talked to Eccles before and I know and so.....

F: Oh, I was -- I mean -- we both know about that.

H.M.Jr.: Ah.....

F: By -- by the way, one thing is that cockeyed idea that I had.

H.M.Jr.: Yes.

F: You noticed how the market boiled today.

H.M.Jr.: Right.

F: One -- one reason may well be that these boys think the British are out of the market with that huge bloc of American securities.

H.M.Jr.: Yeah.

F: And I just wondered whether -- now may be too soon -- whether it might not be good to say to the British

that maybe they ought to begin to unload a little of their stuff.

MEMJr: I see. That's an idea.

F: Because if they -- they're just gambling on the market staying there. I'm not sure it will.

MEMJr: Well.....

F: And -- and they're better off with cash than with -- if -- if -- at a good price than with securities on which they have to borrow. Well, I'll be over at ten thirty then.

MEMJr: And I -- I want to see you anyway.

F: All right. Fine..

MEMJr: Thank you.

September 5, 1939

The Honorable

The Director of the Mint.

Dear Madam:

The President has indicated his approval of the Treasury's recommendation for the use for subsidiary coinage, to the extent necessary, of silver bullion received pursuant to proclamation by the President of December 21, 1933, and the proclamations modifying it, which has not been coined and which is not held as security for silver certificates.

This communication shall be your authority to use such silver up to the amount of 20,000,000 ounces for the purpose of coining subsidiary silver coins.

Please arrange to furnish notification to Mr. D. W. Bell monthly of the amount of silver bullion received pursuant to proclamation by the President of December 21, 1933, as modified, which has not been coined and which is not held as security for silver certificates, and the amount of silver bullion used under this authorization for the purpose of coining subsidiary silver coins.

Your attention is directed to paragraph 2 of the memorandum of the Commissioner of Accounts and Deposits, dated September 28, 1937, which I approved. In accordance with this memorandum, all seigniorage resulting from the coinage of subsidiary silver coins shall be covered into the Treasury as an ordinary receipt and shall appear in the Budget.

Very truly yours,

(Signed) John W. Hanes

Secretary of the Treasury.

WTH:HDW

THE WHITE HOUSE
WASHINGTON

229

August 31, 1939.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

I heartily approve using
this silver bullion to meet
coinage needs. Coin and put
out into circulation all the
country can stand -- up to the
saturation point!

F. D. R.



THE SECRETARY OF THE TREASURY
WASHINGTON

WHITE HOUSE
RECEIVED
AUG 11 11 51 AM '39

230

AUG 30 1939

My dear Mr. President:

On November 11, 1935 you indicated your approval of the use for subsidiary coinage, to the extent necessary, of silver bullion acquired pursuant to section 7 of the Silver Purchase Act of 1934, and which is not held as security for silver certificates. (See attached copy of letter dated November 8, 1935 to you.)

The stocks of silver bullion available for subsidiary coinage (including the silver allocated to that purpose pursuant to your approval above mentioned) are running low and should be replenished.

It seems to the Treasury now, as it did in November 1935, that it would be preferable to use for subsidiary silver coinage bullion now held by the Treasury rather than to purchase for this purpose silver in the open market by means of advertisement.

The Treasury is holding a large stock of silver bullion which was received pursuant to the Proclamation by the President of December 21, 1933, and the proclamations modifying it, which has not been coined and which is not held as security for silver certificates. Such silver may, subject to your approval, be used for subsidiary coinage.

Accordingly, it is intended, with your approval, to authorize the Director of the Mint to use, to the extent necessary, silver bullion received pursuant to the Proclamation by the President of December 21, 1933, and the proclamations modifying it, which has not been coined and which is not held as security for silver certificates. If the foregoing meets with your approval it will be appreciated if you will so indicate by signing the notation at the foot hereof.

Faithfully yours,

John W. Thomas

Acting Secretary of the Treasury.

Approved:

Franklin D. Roosevelt

The White House.

FEDERAL RESERVE BANK
OF NEW YORK

Noted

62(e)

231

OFFICE CORRESPONDENCE

DATE September 5, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

I called Mr. Bolton at 10:02 a.m. We had an order from a foreign central bank to sell sterling in this market. Would it be necessary under the new regulations for the American buyer, or for that matter, for the European seller to furnish any kind of declaration as to purpose, etc? Bolton replied that if we had a counterparty which would take the sterling, there was no reason why the sale could not be made and that transfers of sterling between two foreign accounts were not subject to control.

They were having a very difficult time in the London market today which was kind of chaotic as a result of the new regulations and it would probably take a week or two before the city found its bearing. He asked what the New York quotations were for sterling and I told him that some was wanted at 4.02.

LWK:KW

FEDERAL RESERVE BANK
OF NEW YORK

232 A. L.

OFFICE CORRESPONDENCE

DATE September 5, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 11:55 a.m. He was sending us an order as usual but hoped that we would understand that he naturally wished to preserve their reserves for the national defense. Accordingly he wanted us to deal only if it was absolutely necessary. I pointed out that his franc order based on the sterling rate in Paris would be a difficult one to execute because of the fluctuations of sterling itself. I made sure that it was his intention that we should continue to conduct any executions over his dollar account with us and he confirmed. He repeated that he would not want to sell dollars in this market if he could help it because he needed all they had.

LWK:KW



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

5 September 1939.

MEMORANDUM FOR - The Secretary of the Treasury

Confirming our telephone conversation of this evening, the cutter SPENCER (permanent station Cordova, Alaska) now in the Bering Sea; the cutter INGHAM (permanent station Port Angeles, Washington) now in Prince William Sound, Alaska; and the cutter DUANE (permanent station San Francisco, California) now in San Francisco, have been directed by dispatch to proceed immediately to permanent stations on the East Coast. Two of these cutters will be permanently stationed in Boston, and one in New York - so that, we will then have on the East Coast - two new cutters at Boston, two new cutters at New York, and one new cutter at Norfolk.

One new cutter will remain at Honolulu, and one at San Francisco.

A handwritten signature in cursive script, appearing to read "R. R. Waesche".

R. R. WAESCHE
Rear Admiral, U.S. Coast Guard,
Commandant.

Handwritten initials in cursive script, possibly "R.R.W." or similar.

6229
34

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

Sept. 5, 1939.

TO Secretary Morgenthau

FROM Edward H. Foley, Jr.

Functions of the Treasury Department upon the
Promulgation of the Documents relating to Neutrality

1. General proclamation relating to neutrality.
2. Executive order prescribing regulations governing the enforcement of the neutrality of the United States.

The Executive order assigns to the Treasury Department and the Commerce Department (under such further division of responsibility as the Secretary of the Treasury and the Secretary of Commerce may mutually agree upon) enforcement of the neutrality of the United States as prescribed in the proclamation so far as concerns all vessels except vessels of the naval establishments of neutral and belligerent powers and vessels of belligerent powers operating for hostile or military purposes, and except in the Philippine Islands, the Canal Zone, and the outlying possessions under the jurisdiction of the Navy Department. The proclamation itself forbids certain unneutral acts which are prohibited by the penal code of the United States, but does not cover violations of the Neutrality Act of 1937. The proclamation also prohibits certain activities by vessels of a belligerent in waters within the territorial jurisdiction of the United States. (Note: Customs and Coast Guard will prevent the departure of merchant vessels and inspect exports to the extent necessary to enforce compliance with the order. Two circular telegrams to Collectors of Customs and District Commanders of Coast Guard respectively are prepared for your signature to advise the officers concerned of their duties.)

3. Proclamation prescribing regulations concerning neutrality in the Canal Zone.
4. Executive Order - Prescribing regulations governing the passage and control of vessels through the Panama Canal in any war in which the United States is neutral.

The Treasury Department has no functions under these documents.

5. Proclamation relating to the Export of arms, ammunition, and implements of war, under section 1 of the Joint Resolution of May 1, 1937.
6. Supplement to the pamphlet "International Traffic in Arms—Laws and Regulations administered by the Secretary of State", et cetera.
7. Regulations under section 9 (travel) of the Joint Resolution of Congress approved May 1, 1937.

The proclamation brings into operation section 1 of the Neutrality Act of 1937, which forbids the exportation to belligerents in any case and to others without a license of arms, ammunition, implements of war, which are enumerated in the proclamation. The supplement also invokes section 8 of the Neutrality Act of 1937, which forbids any American vessel to carry arms, etc. to belligerents. The supplement also invokes section 10 of the Act, which forbids any American vessel engaged in commerce with any belligerent to carry arms, etc., except such as the masters thereof deem indispensable for the preservation of discipline. The regulations under section 9 prohibit travel by American citizens on the vessels of belligerents except under certain conditions. Customs and Coast Guard officers will enforce compliance with the above.

(Note: Customs officers will inspect exports and examine passengers to enforce the above, and Customs and Coast Guard will prevent the movement of vessels in violation of the above. Circular telegrams for your signature have been drafted to advise collectors of customs and inspectors of Coast Guard, respectively, of their duties.)

8. Proclamation concerning aircraft.
9. Executive order prescribing regulations governing the enforcement of neutrality in connection with aircraft.

The proclamation prescribes detailed regulations with respect to belligerent military aircraft, belligerent non-military aircraft, and other aircraft. The Executive order assigns the following functions to the Treasury Department: "Enforcing neutrality, except in the Canal Zone, in connection with civil aircraft which land within the jurisdiction of the United States, and, to the extent necessary and practicable, in connection with such aircraft while in flight. (Note: Customs and Coast Guard will enforce these regulations as to civil (non-Governmental) aircraft in accordance with laws, regulations and instructions relating to the movement of vessels and vehicles.)

10. Proclamation concerning communications.
11. Executive order prescribing regulations governing the enforcement of neutrality in connection with communications.

The proclamation provides detailed regulations with respect to radio and other communications. The Executive order assigns the following functions to the Treasury Department:

"Suppression of unauthorized means of communication on board all vessels other than vessels of the naval establishments of neutral and belligerent powers or vessels operating for hostile or military purposes, and such inspection, supervision, and use or control of the means of communication on board the vessels herein allotted to the Treasury Department as may be necessary to carry out the provisions of said treaties and proclamations."

The Treasury Department will have no functions in the Philippine Islands, the Canal Zone, and the outlying possessions under the jurisdiction of the Navy Department.

(Note: Coast Guard officers, where available, and Customs officials elsewhere, will enforce the above with respect to merchant vessels and civil aircraft. Regulations to this end are being drafted for your signature.)

E. W. Foley Jr.

September 5, 1939.

MEMORANDUM TO THE PRESIDENT

FROM: Secretary Morgenthau

Admiral Waesche, Commandant of the Coast Guard, received an appeal this afternoon from the Maritime Commission for assistance in bringing home American survivors of the British ship ATHENIA, which was torpedoed and sunk by a German submarine Sunday. The Maritime Commission's steamer FLINT has aboard 143 survivors of the ATHENIA of whom eight are reported injured. Confusion in the original reports had led to the belief that she had only eight. The FLINT is a slow ship and has inadequate accommodations and supplies to care for this number of passengers. After consultation with this office Admiral Waesche has given direct orders to the Cutter BIBB, which was scheduled to sail from Norfolk today, to take a station in the North Atlantic under Navy direction, to proceed instead directly to meet the FLINT to take off a portion of the survivors aboard (the BIBB can probably accommodate about half of them with reasonable comfort) and to return with them to New York.

The Cutter GEORGE W. CAMPBELL, expected to arrive in New York tomorrow, will be provisioned and turned around as rapidly as possible and, if later advices indicate this necessity, will be directed to meet either the FLINT or the BIBB, whichever seems advisable, unless we receive contrary directions.

The BIBB had one physician aboard and we gave orders to add another physician.

September 5, 1939.

MEMORANDUM TO THE PRESIDENT

FROM: Secretary Morgenthau

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W.M.G.

September 5, 1939.

MEMORANDUM TO THE PRESIDENT
FROM: Secretary Morgenthau

Admiral Wessche, Commandant of the Coast Guard, received an appeal this afternoon from the Maritime Commission for assistance in bringing home American survivors of the British ship ATHENS, which was torpedoed and sunk by a German submarine Sunday. The Maritime Commission's steamer FLINT has aboard LSA survivors of the ATHENS of whom eight are reported injured. Confusion in the original reports had led to the belief that she had only eight. The FLINT is a slow ship and has inadequate accommodations and supplies to care for this number of passengers. After consultation with this office Admiral Wessche has given direct orders to the Cutter BIRD, which was scheduled to sail from Norfolk today, to take a station in the North Atlantic under Navy direction, to proceed instead directly to meet the FLINT to take off a portion of the survivors aboard (the BIRD can probably accommodate about half of them with reasonable comfort) and to return with them to New York.

The Cutter GEORGE W. CANNON, expected to arrive in New York tomorrow, will be provisioned and turned around as rapidly as possible and, if later advices indicate this necessity, will be directed to meet either the FLINT or the BIRD, whichever seems advisable, unless we receive contrary directions.

The BIRD had one physician aboard and we gave orders to add another physician.

Sep - 5 1939

Dear Mr. Secretary:

In reply to your letter of September 4, 1939 relative to the validation of American passports for travel in Europe I attach hereto a copy of the telegram sent today to collectors of customs, seaboard districts.

You will note the action taken did not provide for a review of the passports of travelers departing by way of Canadian ports.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of State.

WRJ:tc Typed 9/5/39

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU CUSTOMS 241

CHG. APPROPRIATION _____

U. S. GOVERNMENT PRINTING OFFICE: 1932 10-1723

SEP - 5 1939

TO COLLECTORS OF CUSTOMS

(See attached list)

State Department order declares all passports heretofore issued by this Government invalid for travel to any country in Europe unless first validated by State Department STOP Station: customs officers at departing vessels to examine passports travelers destined to Europe and take up from such travelers for immediate transmittal to State Department American passports not validated after September 4 1939

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

BRJ:c Typed 9/5/39



THIS NO. 12182 MUST
DEPARTMENT OF STATE ON GENERAL COUNSEL
WASHINGTON PINK SLIP SHOWING ACTION
TAKEN

September 4, 1938

Dear Mr. Secretary:

In view of the existing state of affairs in Europe this Department has deemed it necessary to issue an order declaring all passports which have heretofore been issued by this Government invalid for travel to any country in Europe unless such passports have first been validated by the Department of State. This information is being made public and is being communicated to various steamship lines and travel agencies.

However, since many persons in this country are in possession of passports which appear to be valid on their face, it is thought possible that some of such persons may attempt to depart from the United States for a European country without first submitting their passports to this Department. Inasmuch as it is understood that all ships are required to receive clearance papers from the appropriate collectors of customs before departing from the ports in this country

The Honorable

The Acting Secretary of the Treasury.

-2-

country, I would appreciate it if you would advise me whether it would be possible for the customs officers at the various ports to check up on the passports of all American citizens departing from this country for Europe with a view of ascertaining whether the passports of such persons have been validated by this Department. While there appears to be no statute requiring that American citizens be in possession of valid passports to enable them to depart from the United States, this Department has authority under the provisions of Section I of the Act of July 3, 1926, 44 Stat. 887 (U.S.C., Title 22, Section 211a) and paragraphs 124 and 126 of the Executive Order of March 31, 1938, prescribing rules governing the granting and issuing of passports, to take up or withdraw any passports which have been issued.

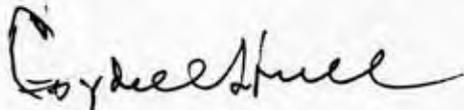
In the circumstances it is desired that the American passports of all persons who attempt to leave the United States for Europe without first having their passports validated be taken up and forwarded directly and promptly to the Passport Division, Department of State. The bearers of such passports should be advised to communicate with the Passport Division regarding the matter.

-3-

matter.

I would appreciate it if you would advise this Department whether the Customs Service is in a position to undertake these duties and, if so, whether such a practice can be put into effect immediately.

Sincerely yours,

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

Enclosure:
Copy of this letter.

Henry

245

September 5, 1939

To: The Secretary
From: Mr. Hanes

In accordance with my verbal conversation with you concerning the request of Mr. Messersmith of the State Department that the Treasury officials in Germany be assigned for temporary duty with the State Department, I find that all of the Treasury staff in Berlin are under our Bureau of Customs. Accordingly, I have taken the matter up with W. R. Johnson, Acting Commissioner of Customs, who agrees that the men can be spared at least temporarily, and he is issuing instructions to them to put themselves at the disposal of the State Department. I have advised Mr. Messersmith that we have put the machinery in motion and that from now on our staff in Berlin will be subject to the orders of the State Department.

J W H.

Sept 5, 1939

10 — ✓ Tuesday

246

Earle Ballie	- New York
Randolph Burgess	- New York
Tom K. Smith	- New Bedford, Massachusetts
Mr. Riefler	- Orleans, Massachusetts
Basil Harris	- Southampton, Long Island, New York
Walter Stewart	- Princeton, New Jersey

Secretary Morycuthan.

I got in

touch with all the above and
they can be located today if
you wish to speak with them
J. W. H.

Pres. saw this memo, and said O.K.
Suggested putting ^{James} Forrestal head of
Adm. Read at the head of this list.

4-4 —

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1939.

TO Secretary Morgenthau
FROM Mr. Gaston 
Subject: Atlantic Weather Patrol.

Juan Trippe, President of Pan-American Airways, appealed to Admiral Wessche, to Assistant Secretary Gibbons and to the State Department last week for assistance in supplying weather reports from mid-Atlantic so as to make possible the continuance of trans-Atlantic passenger air service. Pan-American has been getting frequent weather reports from ships of all nations in passage across the Atlantic. These reports have been indispensable in timing and charting their flights. These reports have been rapidly dwindling within the last week and will probably be almost completely eliminated now that France and Great Britain are at war with Germany. Trippe says Pan-American cannot continue the flights unless weather information is supplied by the United States. He asked Wessche about the possibility of stationing four cutters on the Atlantic routes, one between Newfoundland and Ireland and three on the southern route. Wessche replied that we simply did not have the ships and the men to do it.

At one of the meetings last week in Secretary Hull's office where Army, Navy and the Treasury were represented, I told Secretary Hull about Trippe's application and he said Trippe had made a similar application to the State Department. His understanding was that Trippe was asking their aid in getting this information from British ships, but the comment was

Secretary Morgenthau

- 2 -

9-5-59

made that if Great Britain entered the war, as she now has, there would be a radio black-out which would make it impossible for them to render assistance.

Waesche now suggests that if the Administration is greatly interested in maintaining trans-Atlantic air service, the necessary weather service could be supplied by obtaining five or six merchant vessels, now laid up, from the Maritime Commission. It would take probably six ships for the service if we were to maintain four constantly on station. Waesche estimates it would cost about \$250,000 apiece to put the ships in commission, after which probably \$35,000 a year apiece would be sufficient to man and operate them. Contemplating the use of Coast Guard crews, the service would require not less than 300 men including officers. Altogether the maintenance of this service would cost the Government in the first year probably about \$1,750,000.

The President would probably have to authorize decision to do this.



September 5, 1939

My dear Mr. President:

After leaving Cabinet I had in my office, at 5 o'clock, Admiral Land and Mr. Truitt of the Maritime Commission, Mr. Hackworth, Legal Advisor of the State Department, and Treasury representatives. We discussed the question of buying the NORMANDIE and the QUEEN MARY and giving them a credit on their respective war debts.

At 5:30 p. m. the British and French Ambassadors called at my office and I told them of the proposal. The British Ambassador asked if they were going to get any money which they could use for war materials in this country and I told him no; the idea was simply to give them a credit on their debt to us.

I also, yesterday afternoon, instructed Admiral Wessche to get two of our large cutters ready to sail immediately, when we receive word from the Navy.

Respectfully yours,

The President,
The White House.

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MEMORANDUM

153

September 5, 1939.

To: Secretary Morgenthau

From: Mr. Duffield

Subject: President's Press Conference, Tuesday, September 5, 1939,
4:00 P.M.

NEUTRALITY PROCLAMATION - The President said that immediately after the press conference he was going to take final action on the proclamation under the "so-called Neutrality Act." This proclamation, he said, will supersede all contracts between private American munitions manufacturers and foreign Governments and will prevent the delivery of any additional aircraft under contracts between American manufacturers and Britain and France. The President said he was unacquainted with provisions for damages or escape clauses which might be included in these contracts.

SPECIAL SESSION - The President said he had no news on calling a special session of Congress. He said the more that he studied these problems the less need there seemed to be for additional legislation except neutrality legislation. He went on to say that he was now working on details of certain matters that can be done without legislation and should be done before Congress meets. These matters include filling out the gaps in our national defense and arranging stricter enforcement of neutrality. For instance, the Navy's enlisted strength is 15 per cent short of a peacetime basis and that 15 per cent probably should be made up. Moreover, there are problems of patrolling our own waters, commissioning destroyers, increasing Army strength in the Canal Zone and Puerto Rico, taking added precautions against propaganda in this country aimed at our system of Government or fostering communism and dictatorship, and of taking precaution against the use of this country as a center for gathering information helpful to the belligerents.

No additional appropriations will be necessary until the regular session meets in January, the President said.

AMERICAN SHIPPING - The President said the consensus at the London Embassy and here is that it is probably safer for American liners with flags painted on them to run on their usual courses and with all lights on and on announced sailing dates ~~and~~ ^{then} to institute a convoy system. If this is done,

- 2 -

there will be no way, if any care is taken, for mistaking them for belligerent ships, whereas a warship looks like a warship and is more likely to be attacked. Under international law, Americans can return on belligerent ships because it was agreed -- and Germany adhered to the agreement in 1936 -- that any merchant ship would be stopped and the passengers given a chance to escape before the ship was torpedoed. Also, under the present neutrality law Americans have 90 days after issuance of the proclamation during which they may travel on belligerent ships. Of course, the President added, they are being told that by doing so they take greater risks than they would coming on American ships. He said he had no official word from the Embassies in England or Ireland on the Athenia.

PROFITEERING - The President said he had nothing new on preventing profiteering except that Justice was studying the matter.

ESD

September 5, 1939

To: The Secretary
From: Mr. Hanes

There was a meeting held in my office this morning to discuss the depreciation policy with respect to private corporations engaged in war contracts with the Government. The following were in attendance: Mr. John Burrus, Chairman of the Committee on Depreciation in the Internal Revenue Bureau, Mr. Edward H. Foley, General Counsel, and Mr. Eugene Duffield.

The purpose of this meeting was to advise the Secretary upon the present status of negotiations between the Navy and the Bureau of Internal Revenue with specific regard to the \$6 million cost item to certain manufacturers who were forced to buy additional equipment in order to hasten completion of the work under certain Navy contracts.

I find that the Bureau of Internal Revenue has agreed with the Navy that upon certification by the Secretary of the Navy to the Department of Internal Revenue that equipment had been purchased by certain corporations in excess of their normal requirements, and at the request of the Navy in order to expedite delivery on certain Naval contracts, that the Bureau of Internal Revenue would allow such manufacturer to take into his depreciation account 50 percent of the cost of such equipment, which could be charged against profits made upon the Navy work.

We have not effected any agreement with the Army to this effect, but we understand there is a similar problem to be worked out with the General Motors in conjunction with their reported investment of \$15 million for the purpose of supplying the Army and the Navy with their newly developed high-speed Allison motor. I am now engaged in studying the regulations issued pursuant to the agreement with the Navy. Mr. Burrus is having a meeting with Colonel Schultz, who represents the Army in these matters, this afternoon. I will report further when I have the results of this meeting and will pursue the matter until arrangements have been completed with the Army on their General Motors contract.

For your information, the Navy requested in the last Deficiency Bill an appropriation of \$6 million which was earmarked for use by the Navy in the purchase of certain manufacturing equipment, in order that delivery on Navy contracts might be expedited. This request was granted.

- 2 -

The Navy has the \$6 million and wants to keep it and is now engaged in trying to persuade the manufacturers to invest the \$6 million themselves and take the benefit of the agreement with the Bureau of Internal Revenue on the depreciation of 50 percent per year. While I do not know whether or not the manufacturers will agree to this, it occurs to me that we should be willing to stand by our agreement in either event.

In all these matters I am dealing with Mr. John Burrus of the Bureau of Internal Revenue, Admiral Robinson, representing the Navy, and Colonel Schultz, representing the Army.

J.W.H.

September 5, 1939

To: The Secretary
From: Mr. Hanes

The President called me on the telephone at my house on Monday evening, September 4th, at 8:30 P.M. and instructed me to get all the information concerning the arrival in Boston of the German ship Pauline Friederich. I secured this information and today addressed the following memorandum to the President:

"The German tanker, Pauline Friederich, out of Port Arthur, Texas, with a full cargo of lubricating oil, bound for Hamburg, Germany, put into Boston yesterday. Her Master, Henrick Heitman, has not asked for formal entry, but has notified the Collector that he will do so this morning. A Coast Guard cutter is lying alongside of her, and the Collector of Customs has been notified not to give her clearance papers until he has received formal instructions from Washington." *Signed H. M. Jr. Sept. 5-*

The President told me further to advise Collectors of all ports not to issue clearance papers to German ships without instructions from us.

The President further instructed me to make a complete survey of all German property in this country, including cash balances, securities and fixed investments; to ascertain the owners of such property, and to have catalogued the location and whereabouts of such investments.

J. W. H.

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Signed by H.M. J.R., Sept. 5/39

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JWH:jr

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Note:- sent from Secy's office

cc - Miss Chauncey

4 copies made

EHF, JR: c: ce

9-5-39

MEMORANDUM TO THE PRESIDENT:

The German Tanker PAULINE FRIEDERICH, with a full cargo of 8228.55 long tons of lubricating oil laden at Port Arthur, Texas, for Germany, turned back from the high seas off the Nova Scotia Capes and came into port at Boston, Massachusetts, Sunday, September 5, 1939. The secretary to the German Consul in Boston went on board the boat and talked to the Captain who then made preliminary entry for the vessel. It is the Captain's intention to make regular entry of the vessel today, September 5.

The oil was sold by the Gulf Exporting & Refining Company against a letter of credit on a London bank. A representative of the seller has indicated that the draft may not be honored and that a libel may be filed against the cargo on Tuesday, September 5, to protect the seller.

A Coast Guard cutter is lying along side the tanker and customs officers have been instructed to prevent departure of the vessel without instructions from the Bureau of Customs.

Secretary of the Treasury

APR P.N. 74.
Typed 9/5/39 abc

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Secretary of the Treasury

Typed 9/5/39 abc

COPY

9-5-39

MEMORANDUM TO THE PRESIDENT:

The German Tanker PAULINE FRIEDERICH, with a full cargo of 6228.35 long tons of lubricating oil laden at Port Arthur, Texas, for Germany, turned back from the high seas off the Nova Scotia Capes and came into port at Boston, Massachusetts, Sunday, September 3, 1939. The secretary to the German Consul in Boston went on board the boat and talked to the Captain who then made preliminary entry for the vessel. It is the Captain's intention to make regular entry of the vessel today, September 5.

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W. H. Morghenthau Jr.

Secretary of the Treasury

To Miss Chauncey for mailing

Typed 9/5/39 abc

THE HANDLING OF GOVERNMENT
BOND MARKET

September 5, 1939.
8:30 a.m.

Present: Mr. Hanes
Mr. Bell
Mr. Burgess
Mr. Ronald Ransom

H.M.Jr: Would somebody tell me, so I know, what will they do today for us, because I don't know. You see, Harrison - I didn't know that Harrison was outside for two hours yesterday wanting to see me. Nobody told me.

Bell: Mr. Secretary, he had gone before you came.

Hanes: I told him you would want to see him, but he stayed around here until just before you left that meeting.

H.M.Jr: Last night he said he had sat in my outer office for two hours, said hadn't you or Hieley told me. I said, "No."

Hanes: I was watching for you to come. He wasn't in your office. I was talking to him there myself.

H.M.Jr: He called me up last night, very much disturbed. A little later Karpiner called up; he's very much disturbed.

Ransom: That's disturbing their usual serenity.

H.M.Jr: So I just wondered what was going to happen at 9:00 o'clock this morning. I mean what's the - what's the order, Johnny? What will happen?

Hanes: Well, I don't know what the orders - what orders the Federal has given.

Ransom: That's what they're deciding at this 8:30 meeting this morning, as I understand.

Hanes: Yes.

H.M.Jr: Excuse me one second. I'll be right back.

(H.M.Jr. leaves and returns soon with
Randolph Burgess)

- 2 -

Beginning with this morning, this fellow is working for the United States Treasury.

Ransom: Well, I think he's always worked for the public interest.

H.M.Jr: On Government finances. He's going to....

Ransom: Yes.

H.M.Jr: This is an arrangement all worked out last spring.

Ransom: Well, that's fine. Back in harness.

H.M.Jr: Going to let the National City pay him and we're going to get his services.

Hanes: Pretty soft for the National City Bank.

H.M.Jr: Now, Johnny, tell me where we are at as of this morning.

Hanes: I was talking to Ronald. I think there is some difference of opinion. I don't know how strong it is; I don't feel so very strongly myself. But there is some difference of opinion between us on it - between us and the Fed. We're inclined to think that the Government bond market ought to be protected but not held or not pegged until the point that they are out of line with the corporate securities. In other words, we think that as long as it is more attractive to the banks to buy corporates, they're not only not going to buy Governments, but they're going to sell Governments and buy corporates. Our opinion is that we ought to let that bond market seek its own level, not backing away and leaving air pockets, not letting the market go to hell, so to speak, but to keep it as steady as possible but let it seek its normal, natural level, and at some point - I don't know what that point is, but at some point along this line here, where it's going to become extremely attractive to the big banks to come in and buy Governments - wherever that point is, I think we ought to find it as quickly as we can and get the help from the outside rather than the Government going in and creating the market and making an artificial situation, which I believe is going to make the banks back away from the Government market as long as they feel there is that artificiality about it.

- 3 -

I don't know whether you (Burgess) agree with that.

- Burgess: That's a hundred percent right, John. That's exactly the....
- H.M.Jr: Can you people talk a little louder? My ears are stopped up.
- Bones: You understood what I said?
- H.M.Jr: I understood, but it's an effort. They're still stopped up.
- Bell: Doc, what is this volume of corporate securities? Are they there in any volume for the banks to pick up?
- Burgess: Well, there are some available. There hasn't been a very heavy volume of trading in corporates. But Johnny is absolutely right; the banks are going to stand off on the Governments until they think it's got a natural level, and as long as the Fed is the sole market and as long as there are artificial things introduced, like asking the names of sellers, why, the buyers are not going to be attracted.
- Benson: That idea, as I recall, was one of the trading desk in the New York bank rather than anyone here in Washington.
- Burgess: Well, I think it was a mistake.
- H.M.Jr: They want the names of sellers?
- Burgess: Asking the dealers to reveal the names of customers. That's a violation of every customer relation that the dealer has had.
- H.M.Jr: Why do they do that?
- Burgess: The name of your customer is sacred. When you do that, it makes it look very artificial.
- H.M.Jr: Where did that order come from?

- 4 -

- Ransom: The Fed in New York.
- H.M.Jr: Where did - who initiated it?
- Ransom: Well....
- H.M.Jr: Will you make a note to find out?
- Ransom: Yes. I'll recall that. I'll remember that.
- Burgess: I think it arose out of the attempt to peg. If you attempt to peg a market, then you are reduced to the question of choosing whom you will buy from and whom you won't. Otherwise, you take all the bonds there are. I think anybody would be glad to sell almost all his bonds at the prices on the day war was declared, because it creates an entirely new situation.
- Ransom: I think both you and John have used the expression "peg the market," which might be the effect of a policy carried out at the present time, but which certainly was not the intent of anyone that I know of connected with the operations of the Federal, either from the New York bank end or from the Board here.
- Burgess: Now, that - of course, that's a relative term.
- Ransom: A relative term. I would say there seems to be a continuing and never-ceasing difference of opinion between people who look at the market from time to time, and I would say that it has seemed to me, sitting as an observer for the last few days rather than as a participant in it, because I'm not, as you know, on the Executive Committee when Marriner is here - the feeling has been that if you don't have a bid in somewhere and take something as it goes down, you do allow these unnecessary air pockets to be created. Now, on last Monday I recall a specific case in which one issue was marked down on the board three quarters of a point, with no bid in at all. Well, of course, if you follow that theory of it to its ultimate conclusion, the market does find some level at some point at which I think unquestionably buyers will come into it. Now, in order to maintain this orderly market about which we all talk, it has seemed necessary that

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there should be some bid in somewhere down the line. And as I understand the attitude of the New York bank towards the problem, they felt that they could be somewhat selective in their purchases. In other words, they would decide whether or not a block that was being offered was a distress block or a block which was being offered from a group of people who knew nothing about what they were doing, and they would take a certain percentage, say, of that and let it go.

H.M.Jr: Well now, may I interrupt?

Ransom: Yes.

H.M.Jr: George Harrison doesn't feel that way at all. He feels that his orders are to spend a hundred million dollars if necessary to keep the bond market from going down one point.

Ransom: Well, of course, I don't know, Mr. Secretary, what his orders have been, or the detail of it, as of Saturday, except what I learned over the telephone. I had to leave town and I only got back last night.

H.M.Jr: And he feels he has absolutely no discretion.

Ransom: Well, I think it would be very effective if you gentlemen met with these men, who are all here - the Executive Committee of the Open Market Committee is here in Washington this morning, and it would seem to me very desirable that those five men and you gentlemen should get together and decide what is a joint policy.

H.M.Jr: Well, supposing I call Marriner on the phone now and let's listen and see what he's got to say.

Ransom: I think that's tremendously helpful. The Treasury and the Federal should certainly have a complete understanding of what they're doing and why they're doing it. There isn't any disposition on anyone's part in the Federal to fail to try to understand one another.

H.M.Jr: (On phone) Chairman Eccles. - - Who is this? - - Good morning. Chairman Eccles.

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Would you fellows come closer; then I can see you.
Come up, Johnny, closer and I can see you.

Ransom: I said that I anticipated that this was the meeting of the Executive Committee which was scheduled for 8:30. I had notice of that when your office called me. I supposed the two groups were meeting together.

R.H.Jr: This is a good break for me.

Call: Did Governor Harrison say that he had any new instructions?

R.H.Jr: No. I've got to talk a little frankly and I'm going to ask Ronald Ransom not to take this back. I mean George is terribly upset, and we've worked together under tremendous strain the last five or six years and he's wore his heart out and he shouldn't be upset. He shouldn't. I mean after all he's fiscal agent for us and he's operating for you and a fellow upset as he is - if nothing else, we ought to get him straightened out.

Ransom: I think he's done a remarkably good job.

R.H.Jr: I think since the crisis began - for over two weeks I think George has handled himself very well.

Burgess: I think up to Friday, up until the time fighting started, they did a hell of a good job. They backed away, they kept an orderly market, but they let the readjustment take place and did a fine job. I think the difficulty from there on was the feeling that it should be pegged. And the minute you try to peg a market, then you're bound to be selective in your buyers. That is, the selective question arises because of the basic thing of trying to peg.

Ransom: Randolph, may I try to express it a little differently. I think the thought hasn't been to peg it but to put an elastic barrier across it just like you put one across a road for the wild automobilist to hit; it eases him a certain distance and then hurls him back. I think nobody connected with the Federal has had the remotest idea that they could or should peg the market, or wanted to peg the market.

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- Hanes: I think you and Danny and I, until Marriner came back - until Marriner came back, you and Danny and I had a perfect understanding of this thing; but when Marriner came back, everything seemed to go a little differently.
- Hanson: Don't you think the situation changed somewhat?
- Hanes: It didn't change enough to warrant the great change that took place in the market. Frankly, I think the thing that did the most damage to this market was when you issued those instructions to hold that market even at the expense of a hundred million dollars or two hundred million dollars. Whenever you get that - that's an intangible thing you're talking about, this peg. When you say "peg," that's a relative term. It may mean pegged at a given price.
- Hanson: Or an elastic price.
- Hanes: Yes, or pegged down. Just always standing there, trying to hold the market, creating the attitude in the buyer "well, I'd better look out now, this is an artificial market, so I'd better stay out or, even better, sell."
- Hanes: (On phone) Hello. - - Tell him to send in a slip. I'd like to talk to him.
- Hanes: He's talking on the wire.
- Hanes: I don't want to be critical of Marriner, but I just say that the idea from your shop seemed to get so violently different than it was before, after Marriner got back.
- Hanson: I don't think, John, there was any difference of opinion between Marriner and any of his associates over there in relation to this whole problem. I think there was a feeling that the situation had changed and that the time had come when there should be some aggressive action in this market, that we shouldn't just continually back away from it. It seemed to me that up to Friday, when there was definitely a change in the picture - that is, the crash had really come; I think all of us anticipated it, but then we knew it at that point,

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and it seemed to everyone connected with it over there that there should be some stepping in, some activity, and that we could well afford to support the market to the extent of purchasing as much as was purchased on Friday.

Now, the execution of these orders seems to me to be the difficult problem, not the formulation of a policy, and I have the greatest sympathy for George Harrison and his associates. They're right out on the firing line and all of us stand in the background and we debate these things and give them somewhat necessarily confused orders, and they've got to execute them rather more rigidly perhaps than the instructions were intended to be executed. All of those things are operating problems.

LARRA:

They are, but my point is that you can't hold the Government market out like a sore thumb by itself; it's a relative market, and its relationship with the rest of the market has got to be taken into consideration. That's where I think we made our mistake, in not keeping that relationship at the point where it was a normal, natural decline.

New conditions, I agree, do demand new remedies. We had a new condition there. The new condition was that your corporate bond market had gone down rather rapidly, and maybe too rapidly, but that's something that we can't help. And the Government bond market held up by itself is not going to pull the corporate market back up; rather, the reverse.

LARRA:

My charts then must be all wrong. They indicate to me that the Government bond market has been much more erratic than the corporate bond market, and that it followed almost exactly the pattern of the stock market from day to day rather than the pattern of the corporate bond market. I'd be glad to check that chart with you particularly, Randolph, to see wherein it's wrong, because the corporate line is a much steadier line and hasn't this zig-zag that developed in the Government bond market.

HARRIS:

Well, that may be so. Maybe it took its initial shock rather quickly.

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Ransom: That may be. I'd like, Randolph, during the day to go over that with you.

H.M.Jr: (To Hadley) Get a chart comparing the Government bond market with the corporate bond market. Have you got one?

Hadley: All right.

Bell: Have you got Haas's sheet?

H.M.Jr: (To Hadley) Get it.

Bell: Because he had a chart.

H.M.Jr: Look in that yellow envelope. - - Oh, that's business.

I functioned for a month without any chart.

Burgess: Pretty tough break.

Ransom: I think you were lucky, probably.

H.M.Jr: What's-his-name will get it.

Burgess: Couldn't have read a chart on the damn boat. You didn't know whether you were standing up or sitting down.

H.M.Jr: This Government bond market - I mean a fellow can't sit here - we never have been able to do it - and tell them every split second what to do. When I was working with Burgess for six years I'd say, "Now, I've got so much money. Go ahead. If you've got any doubts, give me a ring." He was on the firing line, and he'd do it.

Hanes: That was my suggestion. If I had the sole responsibility for doing it, I'd pick out the man to do it in New York and I wouldn't say a damn word to him until he had done something I thought was very, very bad.

Burgess: That's the only way you can do it. You cannot run the market....

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- Bell: I thought we told him on Thursday, "You've got all the flexibility you need."
- H.M.Jr: Told who?
- Bell: George Harrison.
- H.M.Jr: No.
- Bell: We certainly told him we had flexibility.
- H.M.Jr: At 8:15 last night - I don't think in my whole experience I have ever - now, this is not to be repeated - I have never known Harrison as upset as he was last night, in six years.
- I've seen the United States Government build up until they've got 11 million bales of cotton, and I don't want the same thing happening - I don't want 11 billion dollars worth of bonds.
- Burgess: They didn't succeed in raising the price of cotton very much, either.
- H.M.Jr: No. I've been all through this thing. My record - hell, when we used to handle it, we handled this thing 90 percent of the time without you fellows. And I went in here in November, '33, and the Government bond market was all shot, and you fellows - the Open Market Committee stepped out, and from that time until last summer we handled that thing all by ourselves.
- Ransom: You mean since '33 up to this past summer we haven't participated with you?
- H.M.Jr: Not very much. Am I right, Randolph?
- Burgess: Well, I wouldn't say that.
- Ransom: We seemed to be in there with you at times.
- Burgess: For a long time we handled the notes and you handled the bonds.
- H.M.Jr: Well, how long had your thing been frozen? That's the answer. I mean selling notes and buying bonds, or vice versa, never did anything.

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(Hadley returns)

Hadley: That's your New York chart - shows the price directions; and here's some interesting comparisons which they had in the Wall Street Journal this morning. High grade Governments, high grade corporates, and so forth. Shows a drop of six points there.

H.M.Jr: There isn't so much difference.

Hanes: Harrison is calling me.

H.M.Jr: Harrison calling you? All right. Well, why don't you take it in here?

Hanes: All right.

(On phone) There's a call on my wire from Governor Harrison. Will you put it in here, please?
Mr. Hanes.

Ransom: There must be something wrong with my chart.

H.M.Jr: With your job?

Ransom: With my chart.

H.M.Jr: Why?

Ransom: Because it doesn't show quite that pattern. That makes almost a complete pattern. Long-term Treasuries and corporates have stuck together very much, haven't they?

Burgess: Very much.

H.M.Jr: I'd say practically the same.

I'll get some more of them.

Burgess: We're talking about relatively small differences. I don't - as a matter of fact, I'm not very much bothered by this market. I think it's going to straighten itself out very nicely.

Hanes: I'm not bothered a bit about it if we let it alone. This market is not going down very much. There's too damn much money going into it, if you let it alone.

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Burgess: They're full of cash. I know one insurance company is going to buy 50 million Governments when they think they're properly priced.

Hanes: I had two insurance companies and I had four banks tell me, "If you fellows leave the bond market alone and let it find its own level, we'll go in and help you with it; but until you do, we won't touch it."

Burgess: The bank which I represented until a few hours ago felt the same way.

Bell: How do they feel now?

Burgess: They're waiting.

H.M.Jr: For fifteen minutes I've been trying to get Eccles; can't get him on the phone.

Bell: They changed their mind?

Burgess: No, haven't changed their mind a bit.

Hansom: If you'll put me on the wire, I'll get him on the phone.

H.M.Jr: Well, there's Harrison first.

Hanes: (On phone) Hello. (Conversation with Governor Harrison follows:)

Conversation with Harrison in New York

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September 5, 1939
8:57 a.m.

Operator: Go ahead.

John
Hanes: Hello.

George
Harrison: Hello, John.

Hanes: Hello, George.

H: Well, I've just had my debate with my executive committee.

Hanes: Yeah.

H: And recommended, in view of conditions in the market and conditions in the world, that we open up a half point down. They voted me down three to two.

Hanes: Yeah.

H: And said I mustn't open up lower than a quarter off.

Hanes: Yeah.

H: That's what we are doing. I don't know how long we'll have to stay there. We've got to stay there until they approve it.

Hanes: I see. Well, what -- you're going to hold -- you're going to hold the mar -- try to hold the market at a quarter off.

H: Well, we've just got to keep putting bids in at a quarter.....

Hanes: Yeah.

H:until they authorize us to go lower.

Hanes: Yeah.

H: Now, it's a hell of a way to run a bond market. The impression that I've gotten from everybody up here is that they think while we've done a good job -- the impression has gone all over the country that we are pegging and that we are the only ones that are buying, which is also true.

Went: Yeah.

H: Now there are transactions that are going on outside of us, because of the amounts involved, at a point to a point and a half below our prices.

Went: Now wait a minute. Let me understand that. You -- you say that there's -- transactions going on outside of the market at a point below your price?

H: A point to a point and a half below our price. And they say well, they don't give a damn about those transactions. We're not going to get buyers into this market until we get down pretty nearly to the point where people are willing to buy them.

Went: Yeah. But, George, wait a minute. Ronald Ransom, and Randolph Burgess, and Danny Bell, and the Secretary, and I are here together. Would you mind repeating that if I turn on the loud speaker?

H: Sure.

Went: (Turns on loud speaker) All right.

H: Well, I was just saying that in our canvass of the market this morning, while there was general approval of the way we handled the market, there was some feeling that we've been too vigorous; we have not let it ease off rapidly enough; that we -- they -- the unanimous recommendation of all the dealers with whom we talked today was that we open a -- a half below last Saturday. I recommended that to the Open Market Committee and they voted me down three to two. They took so long doing it that I don't know that I got bids in on the stock exchange in time to have any bids in on some of them. We may have gotten them, I don't know.

Oh, and another reason for our recommendation was that we're getting advice from all around that there are swaps, or trades, or sales outside of the Federal at anywhere from a point to a point and a half below our prices. I think with that going on, even though we shouldn't necessarily be concerned about somebody who wants to sell his bonds at any price, with that going on it is evidence that we are being too vigorous and are not easing it off quickly enough.

There is a good deal of evidence also that insurance companies and savings banks are doing their best to sell their bonds, even at a point below if they can, because they are swapping into corporates that are off eight to ten points of the prime corporates.

Hanes:

Yeah.

H:

And it just doesn't make any sense to me because admitting that we want to have an orderly market, I think on the morning after a declaration of a general war a half point down is not disorderly.

Hanes:

Well, I agree with that, certainly. Anything -- wait a minute. (talks aside) George, you're in New York, aren't you?

H:

Yeah. Oh, yeah.

(Brief pause)

Hanes:

Just a minute, George, here's the Secretary.

(Secretary takes the phone.)

HMJr:

George.....

H:

Yes, Henry.

HMJr:

I've been trying to get Eccles for fifteen minutes and have been unable to.

H:

Yeah.

HMJr:

And I'll call him and.....

H:

Well, that was because I was debating with him.

HMJr:

And -- ah -- I'm going to see if I can't get that Committee to come over and see me.

H:

Well, I -- I -- of course, I'm sitting here between the devil and the deep blue sea. I'm perfectly willing to do what they order me to do.

HMJr:

Yeah.

H:

But on the other hand, I regard it my responsibility to give them my best judgment as to how to handle it.

HMJr: Well, let me get ahold of Eccles and we'll see what will happen.

H: All right.

HMJr: But for the time being I'm here and -- ah -- well, let's see what's happened. I mean, I -- I've been unable to get Eccles.

H: Yes. All right.

HMJr: O. K.

H: First rate.

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Burgess: Silly situation.

H.M.Jr: (On phone) Operator, what about Eccles?

Operator: I'll get him in just a second.

Bell: I think that's the only criticism that I've had of the operation. You just can't tell; you've got to sit on the desk to know it. But that is that they've been so vigorous; on Friday they held this market at a price 12/32nds below for about two hours. I think they'd have done much better if they had dropped it below that. They were on the job.

H.M.Jr: (On phone) Hello. (Conversation with Mr. Eccles follows:)

September 5, 1939
9:02 a.m.

WJr: Hello.

Marriner
Eccles: Hello.

WJr: Hello, Marriner.

E: I was -- when you called before I was on the line talking to New York with the other members of the Committee here.

WJr: Well, we are here and I've got your Vice-Chairman here. (Laughingly) I told him to stay.

E: Oh, Ronald.

WJr: Yeah.

E: Fine.

WJr: He didn't know that you weren't coming.

E: Yes.

WJr: So he's here and it may be just as well to have him as a liaison officer in this thing.

E: Well, I had to be over here, because we had agreed, as I said.....

WJr: I.....

E:to talk to New York and the other members of the committee that you reach. You see, there's a committee of five - George, and the other four were here.

WJr: Well now, Ronald made the suggestion that we try to get together. Do you want to do it by phone or what -- what would you like to do?

E: Well, I'll do whatever you say. You -- you mean you would like me to come over there?

WJr: Well, and bring -- and Ronald is saying bring the members of your committee with you.

E: Well, the.....

HMJr: And let's have a joint meeting.

E: Well, we can do that. There's only one thing, we're -- that darn market is operating and -- and we've -- we're in touch with New York here every few minutes, that's the only difficulty. They're calling up.

HMJr: Well, they can call here too.

E: Well, -- you -- you -- would/^{you}like us -- you'd like the committee to come over there?

HMJr: Yeah, because I -- I'm not -- I don't want to say I'm unhappy about the situation, but I -- I'm -- I just -- I'm -- we're not quite.....

E: You'd like to -- you'd like to discuss it.

HMJr: I'd like to discuss it.

E: Yeah. Well, I'll -- let me see -- let me get -- let me get in touch with the committee.

HMJr: Ah.....

E: And -- are you in session over there?

HMJr: Yeah.

E: O. K.

HMJr: And as I say -- Hanes is here and Ren -- your man, your Vice-Chairman, Bell, and Randolph Burgess, who is working for the Treasury now.

E: Yeah. Well, O. K. then. We'll come right over; well, that is, I think they will. I'll see. I think they'll come right over.

HMJr: Well, if there's any formality, let me know.

E: Well, I (laughs) -- it's just a question -- as far as I'm concerned I'll come over anyway whether the others stay here or not.

HMJr: Well, I didn't make the suggestion. Your Vice-Chairman made the suggestion that the whole committee come over.

E: Yeah. Well, I think that's a good idea.

HMJr: Well, we're here and if I don't hear from you again
I'll take it you're on the way over.

E: O. K.

HMJr: Goodbye.

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(Mrs. Klotz comes in)

H.M. Jr: Good morning.

Klotz: Good morning.

H.M. Jr: Let me just - you people just stay here a minute - no, I want you to stay all right here. I want to write a letter to the President. I'll do it in Mrs. Klotz's room.

(H.M. Jr. and Mrs. Klotz step out; informal discussion continues for several minutes; subsequent conference with Executive Committee of Open Market Committee is transcribed separately.)

MEETING WITH EXECUTIVE COMMITTEE
OF OPEN MARKET COMMITTEE

September 5, 1939.
9:25 a. m.

Present: Mr. Hanes
Mr. Bell
Mr. Burgess
Mr. Eccles
Mr. Ransom
Mr. McKee
Mr. Draper
Mr. Leach
Mr. Morrill

W.M.Jr: Well, thank you all very much for coming over.
This is very nice of you.

Ransom: Mr. Secretary, I'd like to explain to these gentlemen that, getting a call from your office asking me to be here at 8:30, I assumed that this group was meeting - I knew it was meeting at 8:30 - assumed it was meeting with you, and when I arrived I found that only your boys and not the Federal were here.

Eccles: I ought to explain that....

Ransom: The Secretary said, "All right, as long as you're here...." And, discovering that there might be not a complete understanding of what policies were, I suggested to the Secretary that we all get together and see if we understood one another.

Eccles: I explained to the Secretary that we planned this morning to meet before the market opened and - the five members of the Committee - four are here, and George was at the other end in New York - and talk to him.

W.M.Jr: Well, I want to also explain that in this half hour Ronald Ransom has been completely contaminated.

Ransom: I was either completely contaminated or have completely contaminated you.

Draper: The virus is working.

W.M.Jr: Well, we talked - Harrison called up here. As long as we've got this meeting, after we're through talking about the minute-to-minute operation, we

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might just as well decide about the refunding, too.

Woolles: Yes, that's right.

H.M.Jr: What?

Woolles: That's all right.

H.M.Jr: Well, do you want to tell me and the rest of us what is the program this morning? Harrison called us up after he talked to you, see, and told us something about it.

Woolles: Yes. In order to talk about the program this morning, I think that it may be necessary to discuss the general philosophy.

H.M.Jr: You know about Burgess coming to work for us, don't you?

Woolles: Yes.

H.M.Jr: He's detached himself.

Woolles: George told me about it last Friday - that he was coming.

We may well argue that, due to the very large volume of deposits and the excess reserves, there is a supply of money on deposit and a supply of reserves in the possession of the bank very much in excess of any amount that is needed or could be used, and therefore from that standpoint that an open market operation may be entirely unnecessary at all; that we could let the security markets go where they would and that it does not call for any operation or action on our part. Now, you could - that's a pretty strong case, and that has been my view of the thing. And until - except when we discuss the dealing with an emergency - I mean under normal conditions, if we didn't have a war emergency, I would say that it is perfectly senseless for the Open Market Committee to operate at all in the security market, so long as you have the excessively easy money situation that is now created. See?

But we met last spring at the President's request and discussed what we would do in the event of war, and as a result of that meeting I called the full

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Committee - the full meeting of the Open Market Committee and the bank presidents, and after considerable discussion we decided upon two things. One was that we would buy up to 500 million of securities in the market, as a means of cushioning a decline and preventing too rapid selling and panicky conditions that may develop in the market. The other was that the Board would announce that each Federal Reserve Bank was prepared to advance par on all Government securities to not only member but non-member banks as well at the discount rate. Each bank took that matter up with the directors and after a good deal of discussion - and we had some little difficulty before that thing was all worked out with the twelve banks; but finally they were all in line and prepared to do it, so that when the trouble broke out the Board was in a position to make the statement they did, in order to help cushion the thing.

Wanes: For your information, right there, they made that statement publicly.

Wecles: Made that statement last Friday.

W.M.Jr: About the 500 million?

Wecles: No, no - every bank.

W.M.Jr: That's - well, I gradually got it, and the part that I didn't know was....

Wecles: See, we've never loaned to a non-member bank at the discount rate.

W.M.Jr: That's the part I didn't know.

Wecles: And there was no commitment to loan at par, see? Now we're committed to loan at par to not only members, but non-members, at the discount rate, which is one percent in New York, one percent in Boston, and not to exceed one-half anywhere else.

W.M.Jr: I think that's an excellent move.

Wecles: That's been done.

Now, in the operation of the market, there has been already a substantial decline before we bought -

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we bought practically nothing for the first point and a half. The market had declined a point and a half and there was - I'm speaking of the longer bonds, and there was purchased, I think, around five or six million of bonds in that whole decline. So - I mean the thing was pretty well - letting down rather rapidly. That was all right, because the market was excessively high and it would have been rather unwise to put any resistance on a market decline from that very high point.

Then the market - as it receded from that point, we increased the - we increased the resistance to the decline.

Now, a very good job was done by bringing in the banks and getting the banks to agree - that is, the big banks in New York to agree not to sell and to put out the word over the country of what they were doing. I talked to every one of the bank presidents, as well, through all of the other districts about the situation.

W.S.Jr: The Federal Reserve Bank presidents.

W.S.: The Federal Reserve Bank presidents. I talked to every one of them and kept them advised as to what we were doing, and found out from them what the gossip was, and suggested to them what they might say to some of the bankers in the districts in case there was some feeling on the part of some of the bankers that they ought to sell. And they were unanimous in reporting that all of the reserve city bankers - that is, the bankers in the larger centers where the great bulk of the bonds were held - were not worried about the market, that they had no intention of dumping their bonds. And they all knew that the Fed was in the market trying to maintain a condition of stability in the market; so that it merely meant that the sellers in the market were - the selling would largely come from the smaller individual holders and smaller banks, and there would be small deals, largely, and they would be scattered over a very large area.

Now, the majority of the Committee has felt that under those circumstances, that it was our - it was our judgment that purchasing should be made

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as the market declined. Now, true, we can put bids in under the market an eighth or a quarter or a half or some point under the market, and if you're beginning to get many bonds you can move away from it; in other words, you could drop the market a whole point, and if you moved fast enough you'd buy damn few bonds. Well, under those circumstances you're not really putting very much support under your market. It's just a question of how fast you want to drop. Do you want the market to go up two or three points in a day or do you want to have it go up a half to one point in a day? Now, you can move your bids fast enough and pull away from it and it possibly could go off a point or point and a half or two points. Well, if that's going to be the case, why support the market?

Now, I feel that on Friday, which was the crucial day - that's the day we put out this public announcement - and on Friday, when Poland and Germany were at war and when it seemed to be imminent that the French and British would soon be at war, we felt that that was the day we should attempt to help the market give, under the circumstances, a pretty good account of itself, if we wanted to create the public psychology on the part of the little banks and the public generally. So we put out the announcement that the banks would loan par. We then followed it up by taking out all of the dealers. Now, the purchases on Saturday, which were about three-fourths of all we have purchased up to date - over half of those that were purchased on Saturday were bonds in the hands of the dealers; we took out not only the dealers but the dealers' banks.

Ques: What was Friday or Saturday?

Answers: Friday. We took out all of them, and that cost us about \$1 million dollars. Now, that was the recommendation of George and Sproul, because they said that until you take - many of those dealers were borrowing on the bonds - that the dealer holdings would be likely the weaker bonds, and they hadn't bought them for investment, and that we would get much better cooperation from

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the dealers if we took the dealers out and they had no bonds to sell. So that's what was done. Now, that isn't a recurrent matter at all.

And then, outside of that, for the rest of the day, as I recall, we bought something like fifty some odd millions.

W.S.Jr: Of course, Hanes has given me all this - I mean, so - he's brought me up to date.

Wales: Well, I - well then, that's what we did for the entire day, and the market went off about a point. The next morning we purchased twenty some odd millions and the market went off - of course, it was only a two-hour session - three-eighths of a point.

So that the market now - here, have you seen this chart? Have you got the same one?

A.S.Jr: We have the corporates too.

Wales: This is your longest bonds. There's where the decline came. And in that period, including the 60 million from the dealers, we've only bought about 80 million dollars - less than 80 million dollars in bonds. So no one can say that - here's a drop of fully three points in which we bought less than 80 million dollars out of an authority of 300. Now, I don't know how the hell we could have done much less and maintained any kind of cushion.

Now, they talk about the spread from the corporates....

W.S.Jr: This shows it a little bit better.

Wales: It's practically balanced here.

W.S.Jr: Here are the two - here's the spread.

Wales: There's very little.

W.S.Jr: Very little.

Wales: That's right.

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- McKee: It's averaged; it's averaged.
- Ransom: John, can I see that chart?
- McKee: Here you are.
- H.M.Jr: Well now, as of this morning....
- Eccles: This morning it was the feeling of the majority that we should put bids in not more than a quarter under. George wanted to put them at a half under. We disagreed. We figured to put them at a quarter and if there was a big flood of orders you could pull away. But to pull away immediately and put them a half under didn't seem to be justified.
- McKee: I think I might amend that by saying there was some thought of putting it in at a quarter.
- Eccles: An eighth, some thought.
- McKee: An eighth. Excuse me.
- Eccles: But the majority thought we'd put it in at a quarter and see what the situation was, see if it would gradually recede from that point, and if there was a flood of orders....
- H.M.Jr: I don't know where I got the impression, but I got the impression that you people more or less have tried to peg the market.
- Eccles: Does that look like a pegging? We bought 80 million dollars worth of bonds and the market dropped three points. There's the answer. Now, does that look like any pegging of the market - going off three points, and we bought - outside of what we took from the dealers, we bought less than 80 million dollars worth of bonds.
- H.M.Jr: Well, let me ask another question. This thing of making the dealers give the names of the people who are selling seems to be disturbing the people there.
- Ransom: Those instructions came from the New York bank.
- Draper: That was George's idea.

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- Woolles: That was his idea and we agreed to it. I think it's all right. I do for this reason, that there is some - always plenty of chiselers, and you take some of these big banks and some of the corporations, who have felt that if they might have been able to sell some bonds and not be known in the picture, they possibly would have done so.
- Now, I found in talking to all of the bank presidents, they thought that was a damn good thing. They said it was having this effect, that many of these - said that some of the would-be sellers were not would-be sellers when it came to divulging their names; that they were sellers who would like to sell but wouldn't want anybody to know about it.
- That only applies to the big deals. If somebody's got a lot of - a big holder of bonds - then we want to know who it is that's offering that large block of bonds.
- W.W.Jr: Well, Randolph, does that give people reassurance as to the Government market?
- Burgess: I think just the opposite, Harriner. Of course, it goes back to the dealer-customer relationship, which is supposed, under the whole code in the Street, to be a sacred relationship. That is, you are not supposed to reveal your principals.
- Woolles: Of course, you're in entire disagreement with Sproul and with George and with the dealers, because this whole idea came from them and not from us. It was their judgment and we acquiesced in it when they mentioned it. We thought, well, under the circumstances, that possibly was all right. And I was interested to find out the reaction from the Federal Reserve banks with reference to it, and I found out that all of the bank presidents outside seemed to favor it. So I'm just giving you that.
- Draper: Randolph, we didn't know anything about it until it was suggested to us by George. It emanated from New York. Excuse me, Mr. Secretary.
- W.W.Jr: Well, would it be agreeable to you if I call up Harrison and say we're all here together?

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McKee: We're not all here together. Some are back at the Board. The Executive Committee is here as far as operation is concerned.

H.M.Jr: Well, may I say the group is here?

Eccles: The Committee is here.

H.M.Jr: There are men here.

McKee: Before you talk to him I'd like to tell you of an experience I saw personally - was it last Monday....

Bansom: Monday.

McKee: After they had all agreed to furnish the names, there was some hesitancy in giving the names, Randolph, as you know, and they hem-hawed around.

Burgess: Well, the reason for that, you understand, is that the dealer is very hesitant about giving the names of the traders.

McKee: But they had agreed in the morning with George to do so, and finally when one dealer was pinned down, and I'm not - I can't quote names at this time - but I do know that he was - he finally admitted that he was selling a block for Childs.

Burgess: For Childs?

McKee: He was offering a block of bonds for Childs.

Burgess: For Childs?

McKee: C. F. Childs & Company.

Burgess: But they had been taken out, hadn't they?

McKee: No, they had not last Monday.

Bansom: Monday a week ago.

McKee: Excuse me - there wasn't any market yesterday - I forgot this was Tuesday. But there was that hesitation in giving that information.

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And Devine, irrespective of what confidence you gentlemen here have in Devine, offered a block of a million '60-'65s, and the action of his bid after that offer - and we took half of them like that and he reduced his figures and did his damndest to get those bonds; and you couldn't make me believe anything else but that he sold them short. Now, he said it was the accumulation of a lot of small issues. And the other dealers ran up their prices on the '60-'65s.

Burgess: When was this, John?

McKee: Monday, about....

Wansom: Yesterday a week ago.

McKee: Monday a week, about....

Wansom: I can't tell you just when.

Burgess: That was before they'd got the dealers in.

McKee: Oh yes, the dealers had been in that morning.

Beales: Every type of dealer except Government bond dealers are under regulations.

A.S.Jc: That's right.

Beales: The Government bond dealers can do any damn thing they please so far as - if you couldn't get cooperation - it depends entirely on cooperation. Now, I've thought for a long while that this whole Government bond dealer relationship was wrong and if we're going to - if this war situation is going to continue for some time, I think one of the things that needs to be gotten by way of legislation is that the Board ought to be given power to regulate the Government bond dealers. They shouldn't have this free hand. And no other dealers in any other type of security - all of them are subject to regulation. It doesn't make sense. And then short selling and things of that sort.

McKee: I think it is wise for you to tell the Secretary in confidence of our experience in cleaning out the dealers. The first report I got was - what was it, forty some odd million? It took....

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- McCles: Forty-one million. Then, finally, when the thing was cleaned up we had over 60 million.
- McKee: Anybody that can lose 20 million dollars in a portfolio - there's something wrong, Randolph. They may lose two million dollars - being in the field or commitments under way. But 20 million dollars is a hell of a lot of bonds.
- Hanes: How much of that was guaranteed and how much bonds?
- McCles: Most of it was guaranteed.
- M.M.Jr: How do you mean lose 20 million?
- McKee: Lost sight of it in their portfolio. They said they were long 40 million dollars and finally came out and it was 60.
- McCles: We had 20 million dollars more at the end of the day than we expected to have when we agreed to take them out, when we started.
- Burgess: I don't think that - I don't know about the facts, but I know that....
- McCles: We never raised any question about it, just took it.
- McKee: That's right.
- McCles: We've got no way of....
- Burgess: Yes, but, Harriner - excuse me, but you get daily reports from the dealers on their position.
- McKee: On their borrowing position.
- Burgess: On the position of their inventory and their holdings.
- McKee: Who checks that?
- Burgess: Well, you've got - they can't fool you very long. You've got it from day to day.
- McCles: There's never any auditing or checking of the records.
- Burgess: They certify it to you. They give you a certified

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statement from time to time.

Wales: Well, I think we ought to talk to New York.

A.S.Jr: I've put the call in. There is certainly no disposition on the part of the Federal Reserve Committee to freeze this thing, is there?

Wales: No, heavens no!

Deaper: Mr. Secretary, I think there's a misapprehension about that word "peg." It seems to me that if the Federal is the only purchaser and you put a price in and hold it for fifteen minutes, then you've pegged the price, but that isn't what we really mean by pegging. We really mean, as I understand it, to hold it, freeze it indefinitely. Now, there certainly hasn't been any intention of the Committee, I don't believe, to do that.

Wales: I can only in my small way believe - or refresh your memory, because you've just come into circulation and been in conversation with him - the only one I've heard talk about pegging the market is George Harrison. Now, I know he's talked to you (Hanes); I was in his office when he talked to you. And he had that idea at our first operation of - on last Monday. Now, it's just a common word that George uses, and George doesn't have a whole lot of market sense, in my opinion, but nevertheless that's what he considers pegging: if you go in there taking so many bonds, an unknown quantity at a price, why,....

A.S.Jr: (To Hadley) Is that the total purchases? - - Excuse me. They purchased eight million up until 10:35. Bonds off 8/32nds. That's not bad.

Hall: That's the Federal.

Hadley: Now, the point we've pegged - we put a - the thing was opened at a quarter off, so there it is - 8/32nds. Now he's buying all of the offerings at that price, and he's got eight million dollars worth of securities. So for all practical purposes the market is pegged at that price. But that doesn't necessarily mean that we'll take all the bonds that were offered indefinitely at that price. If by

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holding that price throughout the day we maybe only get 20 or 25 million dollars worth of bonds, then that's one thing. But on the other hand, if there should be a flood of orders, we'd gradually pull away from that, possibly drop that an eighth, drop another eighth; but during the fifteen minutes or half hour that you're buying at that price, you can say you've pegged the market for fifteen minutes or you've pegged it for half an hour.

Draper: But you haven't frozen it, though.

R.R.Jr: You attempt - this order is to buy everything at one quarter off the closing.

McCles: That's right. He opens it up and takes it a quarter off until....

McKee: Let's look at the market. Let's go back. Wait a minute, Harriner. Let's go back to last Monday and look at the prices of last Monday and figure what we've taken and where the market is today. Now, how anybody can say that the market has been pegged, I can't understand.

McCles: We're off three points and we've taken 80 million dollars worth of bonds.

McKee: If the market was pegged, it would be still at the price it was last Monday. Now, you know what pegging the market is.

Hanes: I think there perhaps is a misunderstanding of the term. I think the market is - this thing is largely psychological. When you get a market where you are the only market, then it's pegged....

McKee: You can avoid that situation.

Draper: But you mean for an indefinite length of time. You wouldn't say holding it for fifteen minutes or twenty minutes was pegging it.

McCles: Then if you don't do that, then what are you to do, then what operation are you to have? What is the alternative to that operation? That's what I'd like to know.

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H.M. Jr: (On phone) Hello. (Conversation with Governor Harrison follows:)

September 5, 1939
9:51 a.m.

Mr: Hello.

Operator: Governor Harrison.

Mr: Hello.

George Harrison: Hello, Henry.

Op: George, there's a group here and you're on the loud-speaker. Mr. Eccles and some of his associates are here, and our people.

W: Yeah.

Mr: How -- how is the market?

W: Well, frankly, I left the trading desk about twenty-five minutes ago.....

Mr: Yeah.

W:and haven't had a report since then.

Mr: Yeah.

W: And there's a great deal of confusion at the outset -- at the outset, but not very much doing. In fact, the dealers through whom we are working had offered us very little at that time, but as on Saturday, most of the business seems to be going through the stock exchange.

Mr: Yeah.

W: And it raises some question whether perhaps we are not forcing it through the exchange because of our request to the dealers that they give us names of any large offerings.

Mr: Well, the people here tell me that that was your suggestion.

W: That's quite right.

Mr: Yeah.

W: And we all agreed and thought it was wise and I talked to my committee up here of bankers and others, and they all thought it was wise. That as long as we were

going to be the only buyer we didn't want some big investors to offer us, say a million dollars in bonds and have us bail them out when there's no reason whatever for their selling.

HMJr: You still think.....

H: Now, it did discourage large offerings at the outset.....

HMJr: Yes.

H: It's a query whether it isn't now just forcing the business over the exchange rather than through the market channels.

HMJr: I see.

H: That I mention just for consideration.

HMJr: Well, let me ask you this. Are you satisfied as to your sailing orders?

H: As to what?

HMJr: As to your sailing orders.

H: No, I -- I would think we would do better, regardless of how much we have bought, to lower the price a little.

HMJr: Well, I mean sailing -- s-a-i-l-i-n-g, sailing.

H: Yeah.

HMJr: I mean, your -- your instructions, are you satisfied?

H: No, that's what I say. I think I'd rather drop the price a little.

HMJr: I see.

H: And I say that regardless of the amount of offerings we get for this reason: that the market outside is about three-eighths under.

HMJr: I see.

H: And we've heard of several transactions at three-eighths under our price.

EMJr: Well, now.....

H: We had offerings from one -- that came through one bank, that were under our price.

EMJr: Yeah.

H: We took them at our price in spite of the fact that they offered us at a lower price. That doesn't seem to make much sense. Then there's evidence of some tendency to trade through brokers and others quite apart from us, due first to the fact that big blocs we don't take in total at once, and due to the fact also that I think there's some concern about the names.

EMJr: Well now.....

H: The theory of whether we want to abandon that practice or not.

EMJr: Well, would you hold the wire a minute?

(Brief pause.)

Examiner
Eccles: George.....

H: Yeah.

E: I don't know why you should be concerned about this -- the securities going over the stock exchange or outside deals under our price so long as you're not getting any more than apparently you're getting.

H: Yes.

E: Now, I can well understand that if there was a huge flood of orders and that if it -- at a quarter under you were taking an awful lot of bonds.....

H: Yes.

E:that -- that certainly you'd want to be -- you'd want to be dropping faster than you are.

H: Yeah.

E: But as I understand it, the -- the market is fairly quiet; there's not a great many offerings this

morning. Therefore, I don't know why we should be so concerned in running away from the thing merely because some orders are going over the exchange.

H: Well, no, that -- that's quite all right. You see now there was a -- one order for a -- for a -- purchase for a million that went over on the exchange and our brokers were taking it up, not all in one bloc but in lots of twenty-five at our price.

H: Yes.

H: Now, a query whether we should take that all at once. When we bought about a hundred and fifty thousand that way and knowing there was still nine hundred thousand to go, we finally took the whole thing to get it off the market anyway.

E: Yeah.

H: Which I think is -- is quite right. The offerings are not coming through our dealers as rapidly as they have. I think partly because of the reason that I mentioned, that they don't like to give up the names -- that is, the big offerers don't.

E: Well, are you -- are you opposed to that now? Would you like to waive that requirement?

H: Well, I don't know. I'd like to rock along a little longer with it and get so that -- more advice here. I'm having a meeting of my committee here at eleven thirty, that's in about a half hour.

E: Well, George, I'm -- I, personally, feel that it's been helpful. I'm for it, unless there's something.....

H: Well, I think.....

E:else develops other than I have heard. Now, I talked to the bank presidents outside last week.

H: Yeah.

E: And there was no one who seemed to object at all to it. They seemed to think that it was helpful.

H: Yeah.

E: So that the -- the general -- the general feeling of the -- of the banks, as well as the reserve banks, recognized that -- that they don't want somebody to be able to chisel on them.

W: Yeah.

E: And -- and these big bankers in the reserve cities are all more or less agreed to stand together; and that the names have to be divulged, and they know darn well they are going to stand together.

W: But I don't recommend any change yet.

E: I don't either.

W: Now.....

E: Well now on this -- would -- you -- do you recommend that we drop that -- drop the price below the quarter?

W: I -- I'd drop it below, Harriner, for this reason: I just got the latest report. We've bought now sixteen million sterling in one hour.

E: Yeah. Well, I think maybe -- just a minute, our committee is here. Just.....

(Brief pause)

I've got a report here. The offerings are coming in more heavy now, especially over on the Board.

(Speaking to group in Secy's office:)

I think that we -- he wanted to put it in at a half and we fixed it at a quarter. I'd -- I'd, personally, vote for a half at the present time and then let's see what it looks like. ----
Yes, that's the way I feel about it.

(Brief pause)

on the full committee. (Pause) John, do you want to.....

O. K., George.

E: All right, I think that's better. Now, I've got an important banker from Boston called me up representing one of the big banks and also a small trust company and he says,

"Frankly, we want to buy some bonds but we want to wait for a natural market." He says, "The rumor is that the Federal is taking the market. If that's true, we don't want to go in, but," he said, "if you'll tell me that's not true, we'll begin to buy now."

E: George, do you remember in the spring of '37 when -- when we let the market break so badly here and the Treasury was going to deesterilize.....

H: Yeah.

E:and all of our fun?

H: Yeah.

E: The same thing was that we -- the market ought to be permitted to continue to go down until it got to be a natural market.

H: Well, it didn't go very far.

E: About five points. (Laughs) Well, anyway, the question of a natural market, I don't disagree that -- that a natural market is possibly what we ought to have in view of the excess reserves, and therefore why not completely stay out of the market and let the market get down to where it is natural just as soon as possible and do absolutely no buying.

H: Well.....

E: Why should we buy -- why should we buy at all.....

H:thought it was orderly to let it go down as it's been going.

E: Well, but -- when you're talking about a natural market it's a question of degree. It's just a question of how fast you go and how much you ought to buy.

H: Surely. I mean, I suppose we'd all differ on that.

E: But that's purely a question of degree.

- B: Yeah. You know -- but, Marriner, when you get a situation like this: Some brokers are buying bonds that we know they've bought at a half or more below the market. We -- we are con -- fairly convinced of it; we can't prove it.
- B: Yes.
- B: That the bonds that they are now offering us are bonds that they have already bought below the market and that we are taking them at our price.
- B: It gets right down to the question again, just how fast and how far..... Now, ah.....
- B: Well, I think we've got.....
- B: I'm willing to vote that we completely get out and let the market go where it wants to as far as I'm concerned. Why the hell do anything about them -- with the excess reserves and so forth. I -- that's been my position right along.
- B: Well, I think we've crossed that bridge.
- B: Well, all right then. Then if we're -- if we're going to.....
- B: You don't object to going down a quarter?
- B: No, no, we're -- everybody's for it.
- B: All right. Well, I -- I want to give the order then.
- B: O. K.
- B: First rate.
- B: Right.

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- Eccles: It's just a question of degree, just a question of how fast you buy and how much you drop. Now, the thing....
- H.M.Jr: Well, could I just say this to make life a little easier, because I feel this thing - that this is a matter of weeks, and I'm afraid it's going to be a matter of years. And what I'd like to do is this, so that we can all get along and not have to pay too many doctor's bills. I've never attempted - I mean this isn't the first - to run the Government bond market. I can't do it. But I got Burgess and he's severed his connections and he's here. Now, he can come over to you or you can meet here, and if you fellows will talk with him - if that's agreeable; you all know him.
- Eccles: Oh, fine, fine.
- H.M.Jr: And even occasionally, if it's agreeable, have your Vice Chairman come over and see me, or vice versa - I mean - and sit with us occasionally. Is that all right?
- Eccles: That's fine.
- H.M.Jr: What?
- Eccles: That's fine.
- H.M.Jr: And if there's something on which we're in disagreement, why, we'll know.
- But the only thing that I'd like to say is, the Government owns 11 million bales of cotton and I don't want to end up, if I can help it, holding all the Government bonds. And I'm looking at this thing as a thing that's going - this isn't a day, week, or month - I think we are in for years.
- McKee: Mr. Secretary, how do you mean you're going to own Government bonds?
- H.M.Jr: Well, I mean between the Fed and the Treasury we buy them all back. That's what I mean - that we buy them all back.

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- Eccles: Of course, the Fed up to date are the only purchasers, and we don't of course expect and want to own all of them. I feel that with the huge volume of funds we're not - we can't possibly own them. The banks have got - they've got no place to put their money, and this idea of thinking that this Government bond market is going down to the depths that some people seem to think it is, is perfectly ridiculous, to my way of thinking.
- H.M.Jr: Well, I'm not making any forecasts, but I'm just looking at this thing - I'm afraid we're in for a long, long spell, and if our outlook is the same, then that's that. And I take it from listening this morning that neither your agency nor this wants to put an artificial floor under this market. Well then, we're operating on the same basis.
- Eccles: That's right. It's purely a question of degree, of how fast.
- H.M.Jr: All right. Now, on that thing, Burgess will act for the Treasury. He's here, and there's no difference....
- But as I say, I've never attempted - I've always felt - I say, "Here, we've got so much money. You fellows do the best you can. When you've got a doubt, give us a ring. When we're not satisfied, we'll give you hell."
- McKee: Well, you're not taking any of these bonds.
- H.M.Jr: Yes, we're taking half.
- McKee: Well, I've been out of circulation too.
- H.M.Jr: We're taking half of them right now.
- Bell: No, we're taking the longer bonds, some of them.
- H.M.Jr: We take whatever they say at the end of the day.
- Bell: We make a deal with them at the end of the day. We have taken all the long bonds, Mr. Secretary, we can.

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- H.M.Jr: We're not making mouth bets here, we're playing cash.
- McCles: I understood that we were taking all of them, for this reason....
- H.M.Jr: That's wrong.
- McCles: This is an agreement that came out of your office, was reported to our Committee.
- H.M.Jr: There's our fellow (Bell).
- McCles: The record will show this. When the matter came up, you said that you would be willing to go on a 50-50 basis, the Treasury taking a hundred million and we would take a hundred million, and then you would take a hundred. When we took it up, it was agreed that we would take up to 500 million before you took anything. That is, we got authority to buy up to 500 million and we said it wouldn't be necessary for the Treasury to come in at all; that if we needed some help, we'd have you come in later. That was the agreement last spring.
- Bell: I don't think it is in the record just that way. There was an agreement - they had authority to buy 500 million and you said you'd go a hundred million.
- H.M.Jr: What's happened, then? What's happened?
- Bell: Fed has bought 139 million since last Wednesday - Wednesday of last week, and we have taken 13 million of them - long bonds.
- H.M.Jr: Is that half of the long bonds?
- Bell: That's a little more than half of the bonds - '60-'65s.
- Ransom: But that isn't half of the bonds.
- Bell: No, it isn't half of the bonds they bought. The whole list - they bought notes, bought bonds, bought guarantees, some of which we'll want for the trust funds.
- H.M.Jr: Who decided this thing?
- Bell: Bob Rouse and I decided to close the business every day, in agreement with the Federal Reserve Board;

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they said they didn't care whether we did it at the end of the day or....

- McKee: May I ask our secretary, what is the commitment to the Executive Committee by the full Open Market Committee on the bonds that we're buying for our own account up to 500 million dollars?
- Morrill: So far as the full Committee is concerned, it authorized the Executive Committee to buy up to 500 million dollars, with another possible 500 million dollars beyond that. But the arrangement Mr. Bell is speaking of is one entirely between the Executive Committee and the Treasury, and I understand the facts to be just as Mr. Bell states them.
- Eccles: There isn't a commitment that the Treasury is obligated to take one-half of all the bonds purchased, which was the thing that you wanted to do last spring. Now, as I understand it, now the Treasury wants to invest some of their funds, that is, their....
- Hanes: Trust funds.
- Eccles:trust funds, and they don't want to operate separately in the market. Therefore we say, "All right, you come in and take half of all the long bonds you want at the end of each day."
- H.M.Jr: Well, Bell will have to talk for himself. Just what is the understanding?
- Bell: Well....
- N.M.Jr: I mean what do you tell this man Rouse?
- Bell: Well, at the close of the day, Bob Rouse gives me the list of the purchases by issues.
- H.M.Jr: Who is Bob Rouse?
- Bell: He's the man that took Matteson's place.
- Eccles: New fellow, from the Guaranty.

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Bell: And then we agree as to what the Treasury will take on the long bonds - '56-'59 and '60, '58-'63a, and '60-'65a.

Now, of those long bonds, we've taken \$12,925,000.00 for trust funds. Of the Home Owners Loan bonds, we've taken \$777,000 for the retirement fund of the Home Owners Loan Corporation, making a total of \$13,700,000.00 in securities that we've taken. And the Federal has taken \$125,995,000. That's since Wednesday and doesn't include the 5 million previously bought.

Eccles: That's less than the amount of bills we have let run off.

Bell: Oh yes.

H.M.Jr: Well, Marriner, as far as I'm concerned, it's O. K. Is it O. K. with you?

Eccles: O. K. with me.

McKee: O. K. with me to continue on that basis, if you gentlemen have trust funds and don't desire to go in the market separately.

Eccles: Well, that's it, John.

H.M.Jr: Well, that would be stupid. It would be the height of stupidity.

McKee: But any time that our purchases continue and you want to drop out, why, I think it would be well for you to let us know.

Bell: We don't purchase until the end of the day. We give them an order at the end of the day based on what you have done.

H.M.Jr: There's never been any conflict, because we're using the same purchasing agency.

Well, Marriner, I'm satisfied as of this morning. We've got Burgess here, we've got Bell, and Hanes and I are available at any time, and I think it's been a good meeting.

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Now, I'd like to ask the meeting one thing. It doesn't seem - as long as we're here, let's decide whether we will or won't attempt any refunding, see?

Excuse me. (Reads note brought in by Hadley)
Federal bid marked down another 8/32nds, making it 16/32nds from Saturday. Total of 18 million, with 10 million over counter, 8 million on stock exchange.

Eccles: That's an Exchange activity, all right.

H.M.Jr: Well now, does anybody think we ought to try to do a refunding now?

McKee: May I ask a question that I don't know the answer to, Mr. Secretary?

H.M.Jr: Please.

McKee: How much new money do you need between now and December?

H.M.Jr: We can get along without any.

Burgess: And you've got two resources; you've got some RFC, their borrowing of 275 million - you can have an RFC issue, and you've got the bills. You can sell any amount of bills.

H.M.Jr: For over a year we've been on a basis that we could skip any quarterly financing in case of just this kind of an emergency.

Eccles: That was the purpose of the thing.

McKee: And you only have about 500 million in December, is that right?

Hanes: 526.

H.M.Jr: We've been on this basis for over a year, just for this kind of a thing, and now we can reap the fruit.

Eccles: Personally, I wouldn't do any refunding. We were over here last week and the majority seemed to think we shouldn't make a decision and should wait until

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this week. So I acquiesced in that view. But I felt last week and I felt now that there would be no point in doing any refunding, with the cash balances you have, with the very large amount of bills that you could sell if you needed money, with the RFC issues that can be put out between now and December, and with the fact that you have passed up the period - that is, you anticipated a financing just to meet such a situation, and there's no reason at all to put any new securities in the market. We're trying on the one hand, we say to steady and stabilize the market, so why undertake to try to price an issue of securities?

- H.M.Jr: Well, what I'd like to do, if it's agreeable to you people and you go along with me, is to say that we're not going to do anything on the 15th of September, but no commitment beyond that, because if on the first of October it looks good....
- Burgess: I think it's important to leave it open.
- Eccles: Leave it open.
- H.M.Jr: But we're not going to do anything on the 15th of September.
- Eccles: Then you can do a refunding any time you want between now and then.
- H.M.Jr: Or new money. But I'd like to say I met with the - may I say the Executive Committee of the Federal Reserve....
- Bell: The Open Market.
- H.M.Jr: Is that all right?
- McKee: The Open Market Committee.
- H.M.Jr: That I met with the Executive Committee of the Open Market Committee and we decided that the Treasury would do nothing on the 15th of September - between now and the 15th.
- Burgess: Just check with George on that.
- Ranson: Subject to checking with George Harrison, who is also one of the members.

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- Leach: He's on the Committee.
- H.M.Jr: Check with George?
- Tanson: He's on the Committee.
- McKee: George had that thought today, unless he's had a change of heart.
- Burgess: I suspect he feels the same way, but I think it would be nice to talk to him.
- Eccles: He felt that way Friday.
- Bell: Might say, Mr. Secretary, for the benefit of those who haven't been over the figures, that in this three-months period there was new financing of 900 million dollars scheduled: 500 million for the Treasury, a hundred million in October for United States Housing,
- H.M.Jr: But we could get through.
- Bell:and 300 million for the RFC.
- H.M.Jr: (On phone) Hello. (Conversation with Governor Harrison follows.)

September 5, 1939
10:14 a.m.

HMJr: Hello.

Operator: Governor Harrison. Go ahead.

HMJr: George.....

George Harrison: Hello, Henry.

HMJr:we're now sitting, the Treasury and the executive committee of the Open Market Committee, of which I understand that you're a member.

H: Yes.

HMJr: And we're proposing to announce that on the 15th of September the Treasury will not do any financing.

H: Ah.....

HMJr: Or refunding.

H: I -- I would recommend that if you'd have asked me.

HMJr: Well, we are asking you.

H: First rate. I think that's quite right.

HMJr: All right, we'll have it out in five minutes.

H: It -- truly, there's not -- there's so much boiling around here; it'd just be a confusion; it could probably be done at a price, but with prices so uncertain I wouldn't attempt to fix a price.

HMJr: No, we're not -- you see, we -- we worded it so that there'd be no commitments, and if we want to do something on the first of October, why maybe we will.

H: Quite right. Well, I -- I congratulate you. I think that's the right decision.

HMJr: O. K., George.

H: If the Committee is there, there's one thing I would like to ask them.

HMJr: Go ahead.

- H: Whether they have any objection to taking the bonds that we buy today for delivery on Thursday instead of tomorrow. I ask that for two reasons. First, the volume of work here is so bad that I'd rather push it over until Thursday, and it makes it easier for us to handle, tonight especially, as we are clearing the dealers' positions that we negotiated last week today.
- HEJr: Well now, listen, I'll let Chairman Eccles answer that. That's -- I'll let him talk to you.
- (Chairman Eccles takes the phone.)
- Eccles: George.....
- H: Yeah.
- E: They -- they won't show up in the statement this week then, would they?
- H: They wouldn't show up in the statement this week and I asked whether there might not be some disadvantage in the next week doing that but we could announce next week that whatever proportion of that we show in next week's statement was -- was purchased today.
- E: Well, personally, I'd sooner see the statement show the facts. Now, if -- if the mechanics of doing the job are such that it can't be done, that's another thing.
- H: Well.....
- E: But if it can -- if it -- if -- if you could take delivery and show them in the statement, then that -- after all, the statement then represents the facts. Otherwise it doesn't represent the facts.
- H: Well.....
- E: And I would prefer to see the statement this week certainly show the facts if -- if it -- if you can -- if it can be done.
- H: Well, it will be contrary to -- if we can do it, all right, but all that we have been buying the last few days, we've been taking on two days' delivery rather than the next day's delivery for that same reason.

- E: Yes.
- H: So we would be doing just what we have been doing.
- E: Yes. Just a second. Let me see if any of the.....
- (Brief pause.)
- George.....
- E: Yeah.
- E: Do we understand that -- that you've been doing most of the buying on two days?
- E: Well, you see, this has been a badly congested week because you had Monday a holiday.
- E: Yeah.
- H: And you don't have delivery on Saturday anyway, so everything that we bought on Friday and Saturday we bought for delivery today.
- E: Yes. Yes. Well.....
- H: You've -- you've got quite a congestion up here. If there's really strong feeling about it we'll handle it, but the operating men called me up and asked if they couldn't please be given that permission.
- E: Well, the majority of the Committee would -- would -- if -- if it can be done, without too much inconvenience, would like to see this statement show the amount of -- of purchases this week.
- H: Um-hm.
- H: And especially until we see what the bill market does tomorrow. Is it tomorrow?
- H: Well, no you've done.....
- E: We've got the bills this week.
- H: You've done that already.
- E: Let's see, that's right. They've already -- we've -- replaced them all last week on account of the holiday, didn't we?

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- H: Yes. Uh-huh. The bidding was on Friday.
- E: Well, then this statement, though, would show really what we've purchased and I think it may be a good thing to -- to actually show it, because rather than show a smaller purchase this week, with the possibility of an increasing purchase next week, I'd sooner have the statement next week, if anything, show less than to have the.....
- H: Well, that was the reason I said you could explain that if necessary.
- E: But it's much more difficult to explain and if you can just do it without the explanation. Well, anyway you just do what -- what you please.
- H: Well, will you give me just a little leeway? I agree with you.....
- E: Yeah.
- H: And I'll try and handle it through today.
- E: O. K. Goodbye.

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- H.M.Jr: Marriner, just so I get this thing.... (confers with Eccles on statement to be made to the press)
- (To Duffield) Will you tell the press that we met with the Executive Committee of the Open Market Committee and that we decided that there would be no financing on the 15th of September. Now, for background, that doesn't commit us as to what we'll do beyond the 15th of September. Is that right?
- Eccles: That's right.
- H.M.Jr: That's right.
- Eccles: Doesn't mean you're going to wait until December 15th; might do something in between.
- H.M.Jr: Might do something on the first of October.
- Burgess: Might say for their own background that we have had this big balance for such a kind of situation, in mind.
- Eccles: I don't know whether you want to mention the fact that there is three or four hundred million of RFC and other financing.
- H.M.Jr: I think not. Just that from now until the 15th of September we're not going to do anything.
- Duffield: No refunding.
- Eccles: I think it's well to get the fact out for background that the bill market is available.
- Burgess: The bills held now are considerably less than half what they were.
- Eccles: From two nine to one three; we're off one six.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 5, 1939.

Confidential

MEMORANDUM FOR THE SECRETARY

As a matter of possible interest, there is attached a statement showing total airplanes and engines ordered by and delivered to the French State.


Director of Procurement.

AIRCRAFTS

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>
Glenn L. Martin Company	2 engine Bomber 167-F	200	200 ✓
Glenn L. Martin Company	2 engine Bomber 167-F	215	1
Douglas Aircraft Company, Inc.	2 engine Bomber DB-7	100	0
North American Aviation, Inc.	Basic Trainer	230	119 ✓
United Aircraft Corporation Chance-Vought Division	Dive Bomber V-156	<u>40</u>	<u>20</u>
		785	340

ENGINES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>
United Aircraft Corporation Pratt & Whitney Division	P&W 1830 Twin Wasp	1,821	698 ✓
United Aircraft Corporation Pratt & Whitney Division	P&W 1535 Twin Wasp, Jr.	520	10
Curtiss-Wright Corporation	CW GR2600 Twin Cyclone	42	0
Curtiss-Wright Corporation	CW R-975-E Single Row Whirlwind	115	no record <u>approx. 20</u>
		<u>2,498</u>	approx. 728

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September 5, 1939

11 a. m.

Present:

Mr. Hanes
Mr. Earle Bailie

HM, Jr: Earle, if you don't mind, the reason I am having this sort of official talk of what I hope to have you do -- you don't mind my having notes taken?

Mr. Bailie: Not a bit.

HM, Jr: What I want to know is whether you are ready to do what we talked about last spring or last summer and come down here, I suppose as a dollar a year man, divorce yourself from your own

Mr. Bailie: Take leave of absence was the phrase we used, because I can't divorce myself in the sense when I was down here

HM, Jr: Leave of absence.

Mr. Bailie: Yea.

HM, Jr: That's the word.

Mr. Bailie: Right.

HM, Jr: And the best way I have to describe it is for the Treasury to have you look after international capital movements.

Mr. Bailie: Yes. I am not quite sure what that means, but I am sure we will find out after we have worked on the job.

HM, Jr: That's movement of money in and out of the United States. I think that's the best way to describe it.

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Mr. Baillie: Henry, what I would like to say is this: the answer is yes to your question, but I would like to put it this way: that it may be as the next few weeks go along that you will find you don't need me on the full time job. It may be you will find that I don't fit in as well as you remember I did the last time and I would rather feel this way about it: I suggest I come down, take temporary leave from all my affairs, do any job you want me to do without having people in general feel that if at the end of a few weeks there isn't a job or if you find out somebody else would do it better or if I don't happen to handle it right, that there would be no embarrassment on your side or my side to say it isn't working out. I think that's a much smoother relationship. What I am asking, what I am saying, in effect, don't let's say Mr. Baillie is coming down to move international capital about but just say Mr. Baillie is coming down to help out for a few weeks in the Treasury and then see how it works. I would rather let the job grow

HM, Jr: As far as I am concerned, I am ready to make a commitment.

Mr. Baillie: I don't want you to. You see?

HM, Jr: I am willing to do it anyway you want to do it.

Mr. Baillie: Right.

HM, Jr: But I do think just the way I have told Randolph Burgess. We started at 8:30 this morning, because we had a show with the Federal on the Government bond market and Mr. Eccles has been here. I will do it on any basis you want, but I think it is much better to make some kind of formal announcement.

Mr. Baillie: I think that's right.

HM, Jr: And what I told Randolph was to get hold of Duffield, sit down with him and write out something that he thought he liked and then let me go over it with

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him; rather than have them smell that you are here.

Mr. Baillie: I agree with you.

HM, Jr.: Check, Johnnie?

Mr. Hanes: Yes.

Mr. Baillie: Does Randolph feel that it is a good idea to come down here at once on a full time basis?

HM, Jr.: Well, let me explain it, Earle. Randolph had had it arranged for some time. He has arrangements with the National City that he can come down. I don't know what his arrangement is, but he made it months ago.

Mr. Baillie: Just at the time I talked to my partners.

HM, Jr.: He called up Gordon Rentschler this morning and told him, "Please don't talk to me. I am out off from the National City Bank. I am out." I take it -- I don't know; I haven't asked him -- I take it he made some arrangement about salary. I have not asked him. But I don't want you to kid yourself. I am not kidding. We are in for something which I think is for years. I don't mean you are going to be here for years.

Mr. Baillie: Right.

HM, Jr.: I think it is a matter of years and not of weeks. I don't want you to come on the thought that it's a matter of two or three weeks.

Mr. Baillie: No, I don't.

HM, Jr.: I don't say I want you for two or three years. After all, I don't know whether I will be here after January 1941. But it would be a mistake for you, Hanes and me if you came down for two or three weeks and then have to go back.

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Mr. Baillie: That's not my feeling. Just want to develop -- I have got a health record which is not wonderful. Now I think and my doctor thinks that a world war will be just the making of me and my wife agrees. Maybe it won't. In which case, that's that. I find that I can do as much work as I ever did and a little bit more, but I have to do it on a certain basis of time off and time on. That might not work into the Treasury schedule. That's why I want to be a little tentative in not letting you fellows think that I can do something I can't do.

HM, Jr.: Handling world capital movements -- London closes at one o'clock.

Mr. Baillie: Yes.

HM, Jr.: So if you don't want to be here in the afternoon, you don't have to be.

Mr. Baillie: You get my point, Henry? I don't want to let you sell yourself that I can do a job which I might not find I could do. I have every confidence that I will be in excellent health; that I have never been in better health than at the moment. That's one factor. There is another factor. My affairs at 54 Wall Street now are in condition where they can be handled without my aid. If, for instance, Randolph should die that would not be true and I would then have to say to you "I have certain obligations to the people....."

HM, Jr.: I understand.

Mr. Baillie: ... various people that I would have to hold paramount. Having said those things -- I am trying to say everything that is in my mind -- then I say to you if you want me to come down, of course I will come. I want to ask one other thing. Do you think that putting Randolph and me in separate departments is better than for us to try to some degree to work together?

HM, Jr.: That's up to you. Randolph expressed the wish he would like to share a room with you.

Mr. Baillie: I feel the same way about it because

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I feel if we know what each other is doing, we ought to be much more useful to you and John than if I am just doing

HM, Jr: That's up to you fellows.

Mr. Baillie: All right. Fine.

Mr. Hanes: That appeals to me. The two ought to be together.

HM, Jr: He expressed the wish he would like to share a room with you.

Mr. Baillie: I had not thought of it just that way, but I like it very much.

HM, Jr: I won't take the time -- Randolph can tell you what went on this morning. It's a big fight to keep Wall Street from having control. But the thing that Randolph has to do, he has got to sit and wear out Mr. Eccles. John and I can't do it. We succeeded this morning. He has to handle George Harrison and in the six years I have been here I never heard George Harrison as excited as he was last night.

Mr. Baillie: Randolph and I both know George Harrison intimately. I could handle George Harrison on foreign exchange while he was on the bond side. I think we could handle George Harrison to your comfort together than separately. I think the same thing about Eccles. Don't know him so well, but I think if you and John regard Randolph and me as a firm who, between us, attempt to bring to you the stuff you need on those two concerned, I think you will get better service out of us than if you try to put us separately. For instance, Randolph's long presence in the Federal Reserve would make him tremendously helpful to me in my first discussions on foreign exchange. Now, if I may say so, Randolph and I worked under you on the bond market to our triple satisfaction.....

HM, Jr: Yes.

Mr. Baillie: long ago, and I think we could

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work together again for Morgenthau, Hanes & Company.

HM, Jr: The point is, I say international capital movements. That's just what I mean. I mean movement in and out. That also will eventually get into the question of, if any foreign power wishes to raise money in this country.

Mr. Baillie: Exactly. In other words, what are you going to do? Are you going to have Jesse Jones lend money against securities or securities sold in this market and have constant trouble

HM, Jr: The whole question.

Mr. Baillie: The whole question, and it all comes in -- how much money will you have to raise in order to let Jesse Jones do those things and how much America will have to take in foreign exchange.

HM, Jr: On that thing, I want to bring up something which is along the same line, but I want to first wait. If you are satisfied as to this

Mr. Baillie: Yes, I am satisfied as to myself. When I was here before I would have been embarrassed to talk to anybody in my own office while I was here because we were in the bond business and foreign exchange. We are not in either of those businesses today. Therefore I will feel that if my people want to come down and ask my advice on some investment problem, as long as it does not have anything to do with Treasury except what I read in the newspapers, I can do it.

HM, Jr: My hunch is you can sit here and let things freeze and make more money.

Mr. Baillie: That's my own view.

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September 5, 1939

11:20 am

Present:

Mr. Hanes
Mr. Basil Harris

HM, Jr: Now, Mr. Harris, what I want to know is this: I would like to make you Commissioner of Customs and Assistant to the Secretary of the Treasury and turning that over to you in toto.

Mr. Harris: I thought you were not going to get me down here.

HM, Jr: No, sir! The President called up Johnnie. He's worried about two things -- wants us to hold up all German boats. This and that is popping every minute. Johnnie and I will do the best we can, but this is a big job. This morning I have seen Randolph Burgess, Vice President, National City Bank. He's down here. So is Earle Bailie. He's down here. You are the very man. All are taking leave of absence and are coming. But this is no shock to you.

Mr. Harris: But I was trying to build this up for someone else.

HM, Jr: Oh, no! No! No! I want you to do it, and the thing is moving so damn fast it needs courage, experience, and you have got everything.

Mr. Hanes: It's a whale of a job, that Customs job, and it means handling of ships in every port all over the world, not just the United States.

Mr. Harris: You want me to be Commissioner of Customs.....

HM, Jr: ... and in order to give you additional prestige I want to call you Assistant to the Secretary. Not Assistant Secretary. If you want to be Assistant

-2-

Secretary I will make you that. But the reason I want to make you Commissioner of Customs, I don't want to have you have to ask anybody anything. Say in the middle of the night you want to do something. You are it and you have all the authority. If I made you Assistant Secretary or Assistant to the Secretary, then you would have to work with another fellow. And this is a matter of split seconds. I want you to have all the authority. Moyle is 82 and I am going to send for him and say, "Mr. Moyle, you are 82. I am going to ask for your resignation. And this does not have to be confirmed by the Senate. It's purely an appointment by the Secretary of the Treasury. I hear you have not been well and this is fine for you.

Mr. Harris: I have not been well.

HM, Jr.: You want to do something in the middle of the night. You are the boss. You don't have to call up anybody. All this authority in all these powers is yours.

Mr. Harris: How long a job does this have to be? How long is the war going to last?

HM, Jr.: I am not kidding myself.

Mr. Hanes: We think it is going to be some time.

Mr. Harris: Must I sever my connections with my company?

HM, Jr.: I would have to ask my General Counsel.

Mr. Harris: It has assumed serious proportions since half my income comes from England and that has been cut off. From the British-America.

HM, Jr.: I don't know.

Mr. Harris: Heretofore my salary has not meant so very much. Not it's a little more serious than it was.

HM, Jr.: What's British-America?

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Mr. Hanes: British-American Tobacco Company.

HM, Jr.: You are not getting your money?

Mr. Harris: I don't believe we are going to be able to get our money out of England.

HM, Jr.: You will have to see Earle Ballie. He's in charge of the movement of capital.

Mr. Harris: Oh, then I had better come down!

Mr. Hanes: You had better come or you won't get anything out.

Mr. Harris: When do you want me here?

HM, Jr.: Now! Right now!

Mr. Harris: I have to go back this afternoon. I will be back tomorrow morning. But this has come at a very bad time.

HM, Jr.: What I would want you to do is to sit down with Ed Foley. Tell him the story. I just don't know about the salary business.

Mr. Harris: -h, for that matter it's not quite that serious. I could waive that salary for six months to see how this thing is heading and if it got anyway pressing I could open it up then.

Mr. Hanes: If this thing lasts long, I have to find somebody to divide with me. I want to find somebody with a big income to divide with me!

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1939.

TO Secretary Morgenthau

FROM Mr. Gaston

Subject: Coast Guard Participation in Scientific Expeditions.

1. The ALEXANDER HAMILTON, one of the new 327-foot cutters, is scheduled to sail from San Francisco in about two weeks in a scientific expedition to the South Seas. This is a cooperative expedition of the United States Government, the National Geographic Society and the University of Virginia. The scientific investigations are to be magnetic, geophysical and geographical. The Coast Guard ~~services~~ ^{and Geodetic Survey} is to contribute one or more scientists, the Navy an oceanographer. The Coast Guard would use some of its best navigation students for a part of the observations. The expedition is expected to be gone for a year cruising the South Pacific.

2. The Coast Guard arctic ship NORTHLAND is now at Boston Navy Yard being refitted to take the Byrd Expedition to the Antarctic in November. The NORTHLAND suffered considerable damage in a tropical storm enroute from the Pacific Coast. The Antarctic Expedition would consume at least six months' time and the services of a large Coast Guard crew.

3. Waesche raises the point that we can ill-afford to spare either of these ships and the personnel for such long cruises at this time. In view of the demands that are being made on the Coast Guard, notably for North Atlantic patrol work and the necessity for additional Coast Guard personnel in merchant marine inspection work, I agree with him that both these expeditions should be cancelled if possible.

Secretary Morgenthau

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9-5-59

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Since the President has been personally interested in both expeditions, I assume you may wish to speak directly to him if you agree with Waesche and me.

A handwritten signature in dark ink, appearing to be 'W.A.' or similar, written in a cursive style.

BJS

PLAIN

London

Dated September 5, 1939

Rec'd 1:40 p. m.

Secretary of State,

Washington

1458 September 5, 7 p. m.

FOR TREASURY FROM BUTTERWORTH

The banks opened today. There was no unusual withdrawals of balances and the main activity was confined to acquiring foreign exchange from British residents for the account of the British Treasury. As reported yesterday, the pound was quoted 1.02-6. and gold was purchased at 168s.

An unofficial stock market developed in the street today. The turnover was small and dealings were on a cash basis. The crowd, however, became sufficiently large so that the Air Raids Precautions Department eventually put a stop to the practice and arrangements are now being made to carry on inter-office dealings for cash by telephone. The committee of stock exchange announces that the exchange will reopen on Thursday September 7th.

KENNEDY

ALC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Buenos Aires,
Argentina

DATE: September 5, 1939, 5 p.m.

NO.: (unnumbered)

We have received information from unofficial (but well-informed) sources to the effect that they believe there is a tendency to dissociate the peso from the pound, and instead to assumed a fixed relationship to the dollar, in view of the continuance for several days of the official buying rate in the case of Argentine exports at 3.5715 pesos to the dollar - this quotation is now substantially above the fixed rate of fifteen pesos to the pound - and in view of the cessation today of purchase of sterling. The free market rate for the dollar is fluctuating around 4.35 buying, and 4.38 selling for actual transactions. The official selling rate for dollars is now 4.0477 (lower rate) and 4.7620 (higher rate).

DAVIS.

EA:ENW

PARIS

Dated September 5, 1939

Rec'd 10 a.m.

Secretary of State

Washington

1784, September 5, 1 p.m. (SECTION ONE).

FOR THE TREASURY.

We took Mr. Pearson, President of the Export-Import Bank, to call on Rueff this morning. The latter seemed quite pleased with the performance of the Bourse yesterday as well as that of the foreign exchange market. He said that he had been a strong advocate of keeping the Bourse open and of convincing people that there would be no moratorium in contrast to the situation which developed in 1914; he felt that yesterday's performance of the Bourse and the return flow of deposits had fully vindicated his judgment.

(END SECTION ONE).

BULLITT.

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1784 OF
SEPTEMBER 6, 1939, FROM THE AMERICAN EMBASSY, PARIS.

Rueff told Mr. Pearson that of course France would have to make very heavy purchases of war materials in the United States and that he would probably want some definite information as to the possibilities of securing long term credits in the relatively near future. In this connection he made reference to the statement recently attributed to Mr. Jesse Jones (reference, telegram No. 1727 of September 2 from the Embassy). Rueff was told by Mr. Pearson that for the time being the loan facilities of the Export-Import Bank are being utilized fairly close to the legal limit. However, he said that of course they are constantly getting in repayments. Rueff asked whether there was any definite policy about not extending credits for exports of armaments or munitions, including airplanes; Mr. Pearson replied that it had been a definite policy not to do so, but that for credits for raw commodities and/or machinery, there were no (repeat no) restrictions.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 1784
OF SEPTEMBER 5, 1939, FROM THE AMERICAN EMBASSY, PARIS.

Rueff indicated to us in conclusion that he would be glad to be given any information as to the Bank's future policies and/or facilities - as well as of the R.F.C. itself.

The Bank of France this morning quotes an official buying rate for the pound of 175.00 and for the dollar of 41.75. No sterling dollar rate is quoted. Private banks are cautiously quoting the dollar at 40 and the pound at 174; very little exchange business is being done. The Bourse here will open this afternoon as usual.

END MESSAGE.

BULLITT.

EA:LWW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 5, 1939, 5 p.m.

NO.: 1794

FOR THE TREASURY.

Trading was again very light on the exchange market this afternoon. The dollar was quoted at 4330 and the pound at 175. The belga was quoted at 7.45, the florin at 23.05 and the Swiss franc at 9.68. The Bank of France was an actual buyer of dollars at 43.10. The securities market was naturally heavy again with electric power issues being particularly affected. Turnover was, however, once more very light and operations were conducted in complete calm. Rentes were down for the most only fractions and the four and one-half of 1937 actually improved slightly.

It is difficult to estimate how much if any official support is being given to government issues.

It is our understanding that the partial move to the Loire Valley of the Bank has been definitely decided upon, and it is probable that sometime next week the move will take place. (Reference: No. 1780 of September 4 from the Embassy.)

BULLITT.

EA:LWW

MJD

PLAIN

Berlin

Dated September 5, 1939.

Rec'd. 10:14 p. m.

Secretary of State,
Washington.

1079, September 5, 3 p. m. (SECTION ONE).

The new Reich Defense Council has issued a comprehensive "war economy decree" dated September four regulating basic phases of economic activity in Germany of which following is a summary:

One. The destruction or hoarding of materials goods and money is prohibited under penalty of imprisonment, penal servitude or, in extreme cases, of death.

Two. The following new taxes are established:

- (A) A war surtax of fifty per cent of the normal income tax on incomes in excess of twenty-four hundred marks but this surtax not to exceed fifteen per cent of the total income and the income tax plus surtax not to exceed sixty-five per cent of the total income. This tax will be collected on a calendar year basis and is first payable for the period September 4 to December 31, 1939.
- (B) A surtax equal to twenty per cent of the retail price

MJD -2- No. 1079, September 5, 3 p. m. (SECTION ONE)
from Berlin

price on sales of beer and tobacco products but the Finance Minister may accord exemptions, abatements, and refunds of this tax. (C) An increase of the tax on spirits from 275 marks per hectoliter to 375 marks. (D) A surtax of one mark per bottle on sparkling grape wines and on other sparkling wines fifty pfennig per bottle.

Three. Contributions to the central government by the states and municipalities and other public corporations are provided for as follows: The states inclusive of the city of Hamburg but not Austria or the Sudetenland for which special regulations will be issued to provide a war contribution equal to fifteen per cent of their share of the revenue from the Reich income tax corporation tax and turnover tax; the municipalities to furnish monthly a war contribution of two point five per cent of the proceeds of the tax on agricultural and forest land, five per cent of the tax on real estate, seven point five per cent of the trade tax on capital and profits, and ten per cent of the basic rate of the residence tax. Other public corporations also to make war contributions in accordance with regulations later to be issued.

Four.

MJD -3- No. 1079, September 5, 3 p. m. (SECTION ONE)
from Berlin

Four. Increase of municipal property and residence taxes is prohibited.

Five. The following conditions as regards labor and wages are established: The Reich trustee and special trustee for labor will adapt wages, salaries, and conditions of labor to the exigencies of war and fix maximum wage scales. Extra pay for overtime Sunday, holiday, and night work are abolished; this provision also to apply to the remuneration and other terms of cottage labor. Regulations and agreements regarding vacations are temporarily suspended. The Reich Labor Minister is empowered to authorize exceptions to wage rates and hours of labor as well as to existing legislation for the protection of labor.

KIRK

NPL

EG

PLAIN

Berlin

Dated September 5, 1939

Rec'd 10:31 p.m.

Secretary of State,
Washington.

1079, September 5, 3 p.m. (SECTION TWO).

Promises or payment of wages or salaries or the acceptance of such promises or payment of wages and salaries in violation of the foregoing provisions to be punished by a disciplinary fine the amount of which is left to the discretion of the Reich trustee or special trustee for labor. Similar penalties will be visited on anyone demanding or granting more favorable other conditions of labor than provided for above. In extreme cases the guilty party may be sentenced to imprisonment or penal servitude.

Six. Reductions in all prices and payments for goods and services are provided for to correspond with the savings in labor costs resulting from the abolition of extra wage payments and vacations. Expenditures for the social welfare of the labor force not absolutely required by laws, decrees, or wage scales only to be included in computing prices insofar as they are customary in the concern or industry and do not violate the principles of
economical

-2- #1079, September 5, 3 p.m. (SECTION TWO) from Berlin
economical management. Prices shall also be decreased
if based on the calculation of costs of factories which
were able to maintain production only because of these
fixed prices or because of the over-burdening of their
industry and concerns which by reason of special legal
or actual conditions or through their economic importance
are not subjected to sufficient competition must also
lower prices. All price reductions must have the pre-
vious consent of the Reich Price Commissioner and will
apply equally to all members of the industrial associa-
tion. In general all sellers of goods or suppliers of
services must lower their prices to the extent that they
benefit from the cheapening of goods or services resulting
from the wage and price provisions of the decree. The
Reich Price Commissioner and his appointees are authorized,
however, to allow or decree exceptions to the foregoing
provisions.

Seven. Goods and services are not to be made more
expensive by the use of materials, methods, accessories,
or amenities not consistent with the principle of economic
manufacture or performance.

Repeat to Treasury and Commerce.

(END OF MESSAGE)

KIRK

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: September 5, 1 p.m.

NO.: 301

The Bank of Brazil has been instructed by the Ministry of Finance that, for the present, it is to make no important changes in the exchange régime. Other banks are selling dollars at milreis 20.100, whereas the Bank of Brazil is selling dollars at milreis 19.980 for collections, and quotas.

Reduction to ten thousand dollars has occurred in the authorized "bought" position of banks. This morning all the banks reopened.

I have been informed by the director of exchange that the government has decided that the plan to license imports should be postponed. The Director of Exchange has been reminded of the provisions of article 2 of the reciprocal trade agreement between the United States and Brazil.

Purchases by German interests which are being held in Brazil for account of German buyers include, according to definite statements of the Director, about 2,000,000 compensation marks worth of cotton, four hundred thousand compensation marks worth of coffee and sizeable quantities of cocoa and meats.

GAFFERY

EA:MSG

REB

GRAY

Berlin

Dated September 5, 1939

Rec'd 5:22 p. m.

Secretary of State,
Washington.

1078, September 5, 2 p. m.

Possible preliminary to a withdrawal of silver and perhaps even baser metal coinage from circulation, the Government today announced the introduction of rentenmark notes of one and two marks denominations and the reintroduction of 5 mark rentenmark notes.

Repeat to Treasury.

KIRK

NPL

TREASURY DEPARTMENT

343

INTER OFFICE COMMUNICATION

DATE September 6, 1939

TO The Secretary
 FROM Mr. Bryan

Early in May in the year 1917, Secretary McAdoo sent for me and in our talk I heard for the first time the words "Liberty Loan". He had sent for me because at the time I was publishing a number of magazines of considerable circulation and had had some experience in the creation and distribution of distinctive literature. He accepted my offer to compile and, from listings in my possession, to distribute the first Liberty Bond literature -- of such were the small beginnings of the great Liberty Loan Campaign.

In the five loans which followed during the next two years \$23,972,111,400 was subscribed, and \$21,477,325,850 of this amount was accepted by the Treasury Department. There were 68,289,900 individual subscribers. The bulk of Liberty Bond subscriptions came from the patriotic everyday citizen--the small investors who today are buying United States Savings Bonds.

Should the need arise, we are in a position vastly superior to that in which Mr. McAdoo found himself when I talked with him on that spring morning 22 years ago. Secretary Morgenthau, in his Division of Savings Bonds, has already set up and in working condition, the machinery, the listings and the trained personnel to initiate and consummate most any campaign which he might command.

Through the Division of Savings Bonds, and at the rate of approximately 500,000 each 24 hours, the Secretary could reach with literature and personalized and individually signed letters -

Every person who makes an income tax return.
 Every postmaster.
 Every bank president.
 Approximately 2,000,000 owners of United States Savings Bonds, in every walk of life and residing in every section and part of this country.

New listings could be plated at the rate of 100,000 each day.

United States Savings Bonds do not sell themselves, any more than did Liberty Bonds despite the war fervor. It took the most intensive campaign ever known to move Liberty Bonds, but if the demand came again, the Secretary, through the work already accomplished for Savings Bonds, could dispense with much of this mighty effort.

More than 5,000,000 individual subscriptions to Savings Bonds have been made. Approximately 2,000,000 people own Savings Bonds. These investors could be mobilized overnight and, if properly directed, would form the world's greatest selling organization. They could be counted on to do yeoman service in putting over any loan that the Secretary might demand.

Through the Division of Savings Bonds, the Secretary may, at any time, write a personal letter to the American public.



8301 0 1038

NC

GRAY

PARIS

Dated September 6, 1939

Rec'd 10:37 a.m.

Secretary of State

Washington

1801, September 6, 1 p.m.

FOR THE TREASURY.

The Bank of France this morning has quoted a buying rate for pounds of 175 and dollars at 43.10. No dollar pound cross rate is quoted. American banks are quoting 174 and 41.50 for the same currencies respectively. Practically no business is being done this morning as may be illustrated by the fact that during the mornings air raid alarm there were only five clients in the National City Bank in addition to the bank employees at the time of descent to the shelter. The Guaranty Trust had a similar number.

American banks in Paris this morning received formal notice that all mail will be censored in the future and were requested not to seal their correspondence. They were also requested not to undertake to transmit letters for their clients.

BULLITT

PEG

September 6, 1939.

Admiral Waesche, Coast Guard

Mr. Gaston

Confirming my telephone message of 12:25 today you are instructed to cancel the projected South Sea scientific cruise of the Cutter ALEXANDER HAMILTON and to assign the ship to regular duty. You are to inform the cooperating institutions and I will notify Assistant Secretary of State Messersmith.

CC to Secretary Morgenthau

res

247

Mrs Klotz

Memo furnished
Dr Burgess
and Mr. Bailie

DeWB

September 6, 1939

MEMORANDUM ON TREASURY FINANCING OPERATIONS
FOR THE PERIOD SEPTEMBER 1 TO DECEMBER 31, 1939

Treasury Requirements

In our cash position estimates, the Treasury contemplated selling on September 15, \$500,000,000 of new securities for cash and refunding \$526,000,000 of Treasury notes maturing on December 15. This would have given the Treasury ample cash balances to carry it through to March 15th without any further financing for new cash and would have left December 15 open for refunding of \$1,378,000,000 of Treasury notes maturing March 15.

The Secretary has decided to abandon the plans for any financing on September 15, but has not committed himself beyond that date so that if market conditions permit, the Treasury might still be able to carry through its original program by financing for new cash in the amount of \$500,000,000 and refunding the Treasury notes amounting to \$526,000,000 maturing December 15 some time in October or November.

These operations do not include Treasury Bill financing which involves an issue of \$100,000,000 in ninety-day bills each week for cash with which to meet a maturing issue of that amount. There are outstanding \$1,300,000,000 of Treasury bills.

Corporate Financing Included in Treasury
Cash Position Estimates

As a part of this program it was contemplated that the Treasury would sell during the month of October for account of the U. S. Housing Authority \$100,000,000 of its guaranteed obligations to provide it with funds to meet its commitments for a period of about four months. Also it contemplated selling for account of either the Reconstruction Finance Corporation or the Commodity Credit Corporation, or both, \$300,000,000 of their guaranteed obligations during the month of November, and in addition refund \$206,000,000 of the Commodity Credit Corporation's notes maturing November 2.

Miscellaneous: There are other miscellaneous items in small amounts included in this cash position estimate representing maturing obligations which will be paid off out of Treasury balances.

These include \$11,000,000 of Treasury notes maturing September 15, \$100,000,000 of Federal Farm Mortgage Corporation obligations maturing September 1, and \$10,000,000 of that Corporation's obligations maturing November 1.

Balances

If the Treasury's plans had been carried out as originally contemplated we would have had on December 1 a cash balance of approximately \$1,600,000,000, but if there is no financing at all between now and December 1 and the \$206,000,000 of maturing Commodity Credit Corporation notes are paid off from Treasury funds, then our balance on December 1 will be approximately \$500,000,000. This balance would be further reduced by any purchases made in this declining market for account of Government investment accounts. To date we have purchased about \$27,000,000, including Home Owners' Loan Corporation bonds.

Other Financing which was not included
in our Cash Position Estimate

Federal Intermediate Credit Banks: Mr. Snow of the Farm Credit Administration advises me that they would like to raise new cash for the Federal Intermediate Credit Banks of approximately \$10,000,000 a month for the next three months in addition to their refunding operations. This would make a total financing on September 15 of \$41,000,000; on October 15 of \$40,000,000; on November 1 of \$39,000,000; and on December 1 of \$27,000,000. The last figure represents the maturity on that date. The refunding of \$21,000,000 maturing September 15 and the raising of an additional \$10,000,000 in cash will be the first test of this market.

Other Farm Credit Financing: There are a number of inter-agency transactions which involve either cash payments out of the Treasury or the sale of investments by these agencies to other agencies in order that cash may be made available to some to meet their operations. If the present market condition prevails throughout this period, these situations can be met without in any way affecting the market. These transactions involve the Federal Farm Mortgage Corporation, the Production Credit Corporations, and the Banks for Cooperatives.

Home Owners' Loan Corporation: The Home Owners' Loan Corporation pays out approximately \$15,000,000 a month for administrative expenses, investments in savings and loans shares, and taxes, repairs,

- 3 -

etc., and will pay out on November 1 \$12,000,000 in interest on its outstanding obligations and on December 1 about \$6,000,000, but this organization is getting each month in receipts approximately \$17,000,000 in principal repayments and approximately \$11,000,000 in interest, rentals, etc., so that it has a total monthly income of \$28,000,000 against a monthly expenditure of approximately \$15,000,000 together with the periodic payments of interest. It has, therefore, more than sufficient funds to meet its accruing obligations.

Tennessee Valley Authority: The Tennessee Valley Authority recently received an authorization from Congress to issue guaranteed obligations in the amount of about \$61,000,000 to enable it to purchase certain properties in the Tennessee Valley. One of these transactions was carried through on August 15, the funds for which were made available by the Treasury through its purchase of an obligation of the Tennessee Valley Authority in the amount of \$45,000,000. We are committed to purchase an additional \$16,000,000 of these obligations, after which the Tennessee Valley Authority will deliver to the Treasury definitive securities in such form and bearing such rates of interest as the Secretary may approve, which obligations can, at a proper time, be sold on the market and the Treasury reimbursed.

SWB

DWB:WLN

NEW CASH AND REFUNDING OPERATIONS CONTINGENCIES

	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
<u>Treasury</u>					
New Cash	1/ \$ 500	-	-	-	\$ 500
Refunding	2/ 526	-	-	2/ \$ 1,578	1,904
<u>RFC and GGG</u>					
New Cash	-	-	\$ 300	-	300
Refunding	-	-	206	-	206
<u>U.S. Housing Authority</u>					
New Cash	-	\$ 100	-	-	100
<u>Federal Intermediary</u>					
<u>Credit Banks</u>					
New Cash	10	10	10	-	30
Refunding	21	30	29	27	107

1/ Financing operations, including refunding of notes maturing December 15th, contemplated for September 15th, has been postponed.

2/ It was contemplated that these notes maturing March 15th would be refunded on December 15th. If financing and refunding operations originally contemplated for September 15th are carried out before December 15th, the refunding operation of the March 15th notes can still be carried through.

swB

ACCOUNTS AND DEPOSITS
SEPTEMBER 6, 1939

Mrs. Klotz.
For the Secy's
files.

owb
8/7



TREASURY DEPARTMENT

WASHINGTON

September 6, 1939

MEMORANDUM REGARDING THE GOVERNMENT BOND MARKET

11:30 a.m., SEPTEMBER 6, 1939

A telephone report from the Federal Reserve Bank of New York showed that that bank had purchased in the first one and one-half hours operation of the bond market this morning a total of \$47,000,000 of Government obligations, of which \$26,000,000 were purchased through the stock exchange and \$21,000,000 over the counter. The prices are down about $3/4$ of a point from last night and the volume is a great deal heavier than yesterday's.

Upon receipt of this report, Dr. Burgess and Mr. Bailie talked over the telephone with Governor Harrison regarding the situation. They came to the conclusion that Governor Harrison should have more than the one-point leeway which the Board gave him this morning and that possibly other measures should be taken before the day is over. It was decided that they would talk to Governor Eccles about the matter, but before doing so would lay it before the Secretary for his approval.

They briefly discussed the situation with the Secretary and told him they felt that they should be permitted to discuss it with Governor Eccles and get, if possible, some more flexibility of operation for Governor Harrison. The Secretary approved this procedure.

swB
Gov. Harrison
Bailie

September 6, 1939

MEMORANDUM REGARDING THE GOVERNMENT BOND MARKET

SUPPLEMENTING MR. BELL'S MEMORANDUM

Mr. Bailie and I discussed this question with Chairman Eccles, who said he would report it to his Executive Committee. Later on, we were told that the Committee had agreed to give the New York bank another half point leeway in accordance with our suggestion, though the extra authority was not used today.

W.H.B.

September 6, 1939
10:33 a.m.

354

EMJr: How are you?

Sumner
Welles: I'm all right. I'd hoped to have a chance to shake you by the hand before now, but you've been busy and so have I and I haven't seen you.

EMJr: Well.....

W: Tell me, where is Mrs. Morgenthau?

EMJr: She gets in Friday morning on the Bergensfjord.

W: Well, I'm glad of that.

EMJr: Yes, and so will I be.

W: You certainly have had the hell of a trip.

EMJr: (Laughs) It's been -- it was rough, but I wanted to get back.

W: Oh, naturally.

EMJr: Sumner, the reason I'm calling you, at Cabinet the President said that you had an idea about forming a Tripartite Agreement with the twenty-one Latin American countries. Hello?

W: Yeah.

EMJr: And if you'll tell me what time tomorrow, I'd like to send Cotton and Bailie over to see you to see what you had in mind.

W: I tell you, Henry, I'll be delighted to. I've been working on that problem. It's just about formulated now. I want to take it up with Mr. Hull this afternoon and I'll be all ready tomorrow morning.

EMJr: Do you want to set a time?

W: You bet. Could you hold the wire just a minute? Who is it you want to send over?

EMJr: Mr. Cotton and Earl Bailie, who is with me now.

W: Yeah. (Brief pause) Is ten o'clock all right tomorrow morning?

HMJr: It will be all right.

W: Right. I'll be delighted to see them.

HMJr: Thank you.

W: Well, I'll hope to see you soon.

HMJr: Yeah. We'll have to.

W: Right.

HMJr: All right.

W: Goodbye.

HMJr: Goodbye.

September 6, 1939
11:15 a.m.

356

HMJr: Hello.

Operator: Delano. Go ahead.

HMJr: Hello.

Preston
Delano: Yes, Mr. Secretary.

HMJr: Hello, Preston.

D: Well now, we're all aboard.

HMJr: Fine!

D: One -- one thing I just want to ask - if I can do it the other way. I'd like to do it some place other than Salt Lake.

HMJr: I see.

D: It would become imperative that he should -- that he do that because I'll just have to sit in there if I do that, and I don't like that, you know.

HMJr: No, what could you do?

D: Well, I can bring him here to Washington and put him in the insolvent division.

HMJr: Insolvent?

D: I'll put him in the insolvent division here.

HMJr: Yeah.

D: And, if necessary, I know that I can get Leo to help carry the load, you see?

HMJr: Yes. Well, what could you pay him?

D: Well, I can pay him whatever you say he has to be paid.

HMJr: I get you.

D: Now, I'd like to pay him less than five just because of the morale of the organization.

HMJr: I see.

D: But I'll do -- we -- we'll make -- we'll make it go anyway.

HMJr: I see. Well, what could -- what could be fairer?

D: Well, I -- I picked this, Mr. Secretary. I -- I understand the situation. I think this is one of these things that we just ought to do.

HMJr: Well, it's a question of clearing the decks in order to take care of all the ports of the United States.

D: Why of course, I understand the emergency and I think this is just a case where we've got to be good soldiers.

HMJr: Right. Well, I won't use him unless I have to, because I've got a job in Washington where I can place him on this -- we've got a Board of Appeals on process taxes.

D: Well, you understand I could put him in Salt Lake but what I'd have to do.....

HMJr: Yeah.

D: I'd have to give him a research job and -- with no office.

HMJr: No, no.

D: And I think that might look a little bit bad.

HMJr: Bad, yes. I agree with you. Ever so much obliged.

D: Right.

HMJr: Thank you.

D: Goodbye.

September 6, 1939
12:21 p.m.

Herbert
Gaston:

Yes.

HMJr:

I talked to the President about the ALEXANDER HAMILTON going down on a South Seas expedition.

G:

Yes.

HMJr:

Call it off.

G:

All right.

HMJr:

And on the NORTHLAND.....

G:

Yes.

HMJr:

.....he's inquired -- he's asked the Navy to find out whether Byrd is -- is ready and if he's not ready to postpone it for a year.

G:

Uh-huh. That's fine.

HMJr:

But call off the ALEXANDER HAMILTON.

G:

Yes. I'm sending you in a little memorandum of the message that came from the city of FLINT.

HMJr:

Yes.

G:

They have 216 people aboard; there were over 100 of Americans; they have four doctors there; they have several injured but no -- nobody in -- in an extremely serious condition and the master thinks it's best for them to put right into Halifax. He's got enough oil and supplies to get him there, and Waesche simply told the -- here -- the skippers of the two cutters to keep in touch with the FLINT and follow their own judgment but he -- he thinks he'll have one or more of the cutters follow the FLINT into Halifax and take the Americans there and bring them to New York.

HMJr:

I thought one of the children had concussion.

G:

Yes, one of the children has a concussion.

HMJr:

Right.

G: Yeah.

HMJr: All right. Everything else all right?

G: Everything's under control. I'm going to have a meeting with the Commerce people at three o'clock. We -- we saw the newspaper men this morning.

HMJr: Yes.

G: Having a little labor trouble on the American ships at New York.

HMJr: O. K., Herbert.

G: Right.

September 6, 1939 280
12:24 p.m.

HWJr: Hello.

Operator: Dr. Burgess. Go ahead.

HWJr: Hello.

Randolph
Burgess: Yes, Henry.

HWJr: How are things going, Randolph?

B: Well, we bought \$1 million. They've -- they've dropped down another quarter. They're still a quarter above their -- their margin. We told the story to Harriner. They're having a session on it shortly.

HWJr: I see.

B: I haven't heard their results yet.

HWJr: I see.

B: The buying is a little better, particularly in the short issues.

HWJr: Right.

B: There's some outside demand right up through ten years.

HWJr: Yes.

B: Beyond that it's still a little heavy.....

HWJr: Right.

B:and we're getting a good -- good deal of stuff.

HWJr: Right.

B: But I think on the whole it begins to look better, as though we're beginning to -- to find the market.

HWJr: Right. Thank you.

B: The stock market is indeterminate, as you know.

HMJr:

Thank you.

B:

Yes.

September 6, 1939
12:30 p.m.

362

WJr: Hello.

Operator: Admiral Waesche. Go ahead.

WJr: Hello.

Admiral
Waesche: Yes, Mr. Secretary.

WJr: Admiral, for your own confidential information, the President's naval aide told me that he had a discussion with the President this morning and the President had it in mind to take a part of the Coast Guard over on this detail. The naval aide argued with him that if we just assigned them and that they took orders from the division commanding, it ought to work out all right.

W: Yeah.

WJr: The President is worried about refueling, and he said they thought they could handle it. The naval aide said you had cooperated splendidly and he assured the President that if he did it this way rather than taking over part of the Coast Guard, it would work out all right.

W: I see.

WJr: And on the basis of that, the President is going to do it this way, so it's up to you to give him a hundred percent cooperation.

W: Yes, sir.

WJr: So that's that, and I told Gaston. I guess he'll tell you in a few minutes. I got the ALEXANDER HAMILTON released.

W: Yes, I just got word from Gaston. I was certainly glad to hear that.

WJr: All right. So just keep it in mind and give the Navy a hundred percent cooperation and they'll leave you alone.

W: Very good, sir. All right. Thank you.

WJr: Goodbye.

13
September 5, 1939.

My dear Steve:

I thank you most sincerely for the expression of pride in the record of this Department which was contained in your letter of September 1, transmitting your resignation. It is a record in which you may well take pride, for you have played an essential part in the making of it.

Although you told me some time ago of your intention to leave about the end of this month, I take formal note of your resignation with real regret. No one could have rendered more loyal and faithful service to his government in your post than you have rendered. It has been a great source of satisfaction to me to have in a position of such responsibility one of your ability, your devotion to duty and your complete integrity.

For the fine service you have rendered and for the pleasure of association with you I am deeply grateful. We shall all miss you, but shall wish for you the greatest success and satisfaction in your new work.

Sincerely,

Honorable Stephen B. Gibbons

Assistant Secretary of the Treasury.

HEG:ew



September 6, 1939.

My dear Steve:

I thank you most sincerely for the expression of pride in the record of this Department which was contained in your letter of September 1, transmitting your resignation. It is a record in which you may well take pride, for you have played an essential part in the making of it.

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For the fine service you have rendered and for the pleasure of association with you I am deeply grateful. We shall all miss you, but shall wish for you the greatest success and satisfaction in your new work.

Sincerely,

Honorable Stephen B. Gibbons

Assistant Secretary of the Treasury.

HEG:ew

September 8, 1939.

My dear Steve:

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Sincerely,

Honorable Stephen B. Gibbons

Assistant Secretary of the Treasury.

HBB:ew

September 6, 1939

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For the fine service you have rendered and for the pleasure of association with you I am deeply grateful. We shall all miss you, but shall wish for you the greatest success and satisfaction in your new work.

Sincerely,

(Signature)

Honorable Stephen B. Gibbons

Assistant Secretary of the Treasury.

HEG:ew



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington, September 1st, 1939.

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My dear Mr. Secretary:

I am submitting herewith my resignation as one of your Assistants, effective September 30th, 1939 if that date is agreeable to you.

As I explained to you, I regret I cannot see my way clear, longer to continue in Government service, as I have not only enjoyed my work tremendously but I shall always regard my association with you as one of the high spots of my career.

Your ability to immediately grasp details; your capacity for work; your open-minded consideration of any constructive suggestion and your fearlessness in making decisions on public questions which have frequently required more than ordinary courage, are but a few of your many worthwhile endowments.

The improvements you have effected in the Coast Guard alone, would in themselves be an accomplishment of a lifetime, not to mention many others, some of which I am familiar with. The coordination of the Investigative Units of the Department, which has resulted in increased efficiency, required considerable courage in my opinion as it represented a major departmental adjustment. You displayed even more courage when you determined to consummate an improvement which, in my opinion, only lack of moral courage had delayed for at least fifteen years. I refer to the decentralization effected in the Internal Revenue Bureau which will result in a great saving of time and expense to the tax-paying public.

If I have been of any slight assistance in relieving your burdensome task during the past six years, I feel fully compensated and I trust you will command me, if at any time I may be of service.

With assurances of my high regard and best wishes for a continued successful career, I remain,

Sincerely yours,

Hon. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

Stephen B. Gibbons

ASSISTANT SECRETARY OF THE TREASURY

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September 4th, 1939.

Dear Mr. Secretary:

There is attached to the letter of resignation herewith, a copy of letter addressed to the President, which I didn't want to deliver unless the time and other elements meet with your approval. What I would like to do is take leave for part of the month as I am all set to start on my new job not later than October 1st.

Will you please let me know?

Steve

September 1st, 1939.

My dear Mr. President:

As I advised you last April that I would be obliged in the very near future to relinquish my appointment as an Assistant Secretary of the Treasury and return to private life, I am submitting my resignation, effective at the close of business September 30th, 1939.

I wish it were possible for me to continue in my humble capacity as one of Secretary Morgenthau's assistants, but as I have explained to you and him, after six years of continuous service, I find necessity far outweighing my desires in the matter.

Having had considerable experience in the business world, I believe I am qualified to vouch for the efficient organization and excellent businesslike administration I found on entering the Treasury Department. But I have witnessed many improvements, most of which have been due to the keen discernment of Secretary Morgenthau and his ready compliance with any sane constructive suggestion. And one of his admirable traits has been his ready response to any request effecting any improvement in the condition of the Department's personnel.

If I have been able, in my humble capacity, to add one iota to the efficiency of this great Department of our government or have been of the slightest help in ~~the~~ fulfilling ~~any~~ any of the ideals of your legislative program for the betterment of our fellow man, I am truly grateful for the opportunity, and the honor you have conferred on me.

With assurance of my high regard and best wishes, and trusting you will command me if at any time I can be of service, I remain,

Faithfully yours,

Sept 13.

Noted

W.D.P.

BK 209
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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

September 6, 1939.

MEMORANDUM FOR THE SECRETARY

In compliance with your instructions of this morning with reference to critical materials, there are attached hereto three memoranda pertaining to quinine, tin and quartz crystals.

In addition to these items, the other critical materials in which the Army and Navy are interested are manila hemp, chromium, tungsten, optical glass and manganese.

Public No. 361 passed by the last session of Congress appropriated \$10,000,000 for the purchase of critical materials which are being acquired in accordance with the directions of the Army and Navy Munitions Board.

This amount also includes cost of establishing storage facilities which will be located on Army and Navy reservations, as well as freight and cost of maintenance of stock piles.

[Signature]
Director of Procurement.

can start by buying 50 more accounts and create

QUININESOURCE OF SUPPLY

The Netherlands East Indies produce between 95 and 97 per cent of the cinchona (quinine) bark entering into world trade. Shipments from this center of production are customarily marketed to Continental Europe and the United States through the Netherlands.

CONTROL

The production of quinine is controlled by private enterprise regulated by the Netherlands Government. This control takes the form of regulating both the amount of trees on the plantations and the tonnage and quinine contents of cinchona bark harvested, as well as quotas of bark released for world consumption. The United States is required to include certain amounts of quinine sulphate with all importations of cinchona bark.

USES

Quinine is essential as a specific in the treatment of malaria, and no substitute has been found which is acceptable to the medical profession for this purpose.

Four hundred thousand dollars (\$400,000) has been allocated for the purchase of quinine, which is to be stored at St. Louis Medical Depot, St. Louis, Missouri.

The State Department has dispatched a cablegram to the American Minister at the Hague, requesting that he discuss with the appropriate officials of the Netherlands Government whether the Quinine Syndicate can be persuaded to make a special release of cinchona bark to American quinine manufacturers (Merck and Company and the New York Drug Company) for conversion into quinine sulphate in such amounts as the American

Government may wish to secure as a strategic reserve and also to discuss the possibility of the Dutch Syndicate making a special price for furnishing quinine sulphate direct to the American Government for stock pile purposes. To-date no information is available as to the outcome of these negotiations. Specifications for quinine sulphate have been approved by the Army and Navy Munitions Board and proposals for purchase will be released as soon as satisfactory arrangements can be made.

TINSOURCES OF SUPPLY

The three principal tin producing countries of the world are Malaya, Bolivia, and Netherland East Indies. The Straits Settlements and Great Britain, respectively, lead the world in smelter production. Although tin has been found in the United States in a number of places, most of the occurrences are of no economic value.

CONTROL

In 1931, the Governments of British Malaya, Bolivia, Netherland India, and Nigeria agreed to a production-curtailment plan. Later in 1931 Siam joined the plan. An organization called the International Tin Committee, with headquarters at the Hague, was set up to carry out the plans of production curtailment. The Committee assigned export quotas to each of the participating countries, which quotas were to be translated into production control.

At the expiration of the original plan a new agreement was accepted to run for three years from January 1, 1934. In July, 1934, it was announced that Belgian Congo, Indo-China, the United Kingdom, and Portugal had joined the output restriction scheme.

At the expiration of this agreement in January, 1937, the third International Production Control agreement was signed in Brussels. Late in 1937 the signatory countries created a "buffer pool" by contributing 7.5% of their standard tonnages which were to be forfeited and redistributed proportionately among the other signatories if any one failed to produce its quota. The pool will remain operative until January 1, 1942, or until the end of the third restriction agreement.

USES

Tin is essential in the manufacture of solder, bronze and bearing metals.

For the purchase of tin, \$4,500,000 has been allocated. Such tin as is procured will be stored at the Columbus General Depot, Columbus, Ohio.

Inasmuch as the quantity of tin allowed the United States is considered totally insufficient to meet its needs, a cablegram has been sent by the State Department to the Ambassador at London for the purpose of ascertaining whether a special quota of tin might be had from the International Tin Committee for the purpose of creating a stock pile in this country. Pending the receipt of information from the State Department, it is planned not to issue any invitations for the purchase of tin. It is understood there is practically no tin available in the United States. ?

QUARTZ CRYSTALS

SOURCES OF SUPPLY

The only commercial sources of supply of the crude quartz crystals are in the states of Minas Geraes and Goyas in the interior of Brazil. Sorted crystals ready for export probably may be had at the Brazilian ports of Santos and Rio de Janeiro.

CONTROL

The Brazilian mines are either owned by the miners, leased from individuals, or from the state. The only controlling factors in the production are the relative small percentage of this production which is suitable for radio and optical work, and the export taxes imposed by the states upon minerals. No quotas for production or consumption have been set by the government or producers. The Brazilian export statistics, however, show the United States to be the chief consumers followed closely by Germany and Japan.

USES

Quartz crystals are used in radio and transmitter receivers, depth sounding apparatus, range finding instruments, precision instruments, in the manufacture of special lenses and prisms and the manufacture of jewelry.

In the distribution of the \$10,000,000 appropriation by Congress, \$100,000 has been allocated for the purchase of quartz crystals, which will be stored, when procured, at the New Cumberland General Depot, New Cumberland, Pennsylvania, and the Washington Navy Yard, Washington, D. C.

Until recently quartz crystals were quoted at \$6.00 per pound. It is understood that England has gone in the market for all quartz crystals available, as a result of which the price has advanced to \$12.00 a pound.

SEP 6 1939

My dear Mr. President:

I received your letter of August 31, 1939, and shall be glad to continue to serve as a member of the Committee on Economic Security.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

File to Mr. Thompson

By hand

WV:hb

SEP 6 1939

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I received your letter of August 31, 1939, and shall be glad to continue to serve as a member of the Committee on Economic Security.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President.

The White House.

File to Mr. Thompson

By hand

WWT:hb

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September 5, 1937.

REGULATION CONCERNING CREDITS TO BELLIGERENTS

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

"Sec. 3. (a) Whenever the President shall have issued a proclamation under the authority of section 1 of this Act, it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent state or of any state wherein civil strife exists, named in such proclamation, or of any political subdivision of any such state, or of any person acting for or on behalf of the government of any such state, or of any faction or asserted government within any such state wherein civil strife exists, or of any person acting for or on behalf of any faction or asserted government within any such state wherein civil strife exists, issued after the date of such proclamation, or to make any loan or extend any credit to any such government, political subdivision, faction, asserted government, or person, or to solicit or receive any contribution for any such government, political subdivision, faction, asserted government, or person. Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its citizens, he may, in his discretion, and to such extent and under such regulations as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. Nothing in this subsection shall be construed to prohibit the solicitation or collection of funds to be used for medical aid and assistance, or for food and clothing to relieve human suffering, when such solicitation or collection of funds is made on behalf of and for use by any person or organization which is not acting for or on behalf of any such government, political subdivision, faction, or asserted government, but all such solicitations and collections of funds shall be subject to the approval of the President and shall be made under such rules and regulations as he shall prescribe.

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

"(c) Whoever shall violate the provisions of this section or of any regulations issued hereunder shall, upon conviction thereof, be fined not more than \$50,000 or imprisoned for not more than five years, or both.

Should

Should the violation be by a corporation, organization, or association, each officer or agent thereof participating in the violation may be liable to the penalty herein prescribed."

I hereby find that it will serve to protect the commercial and other interests of the United States and its citizens to except from the operation of Section 3 of the joint resolution of Congress approved May 1, 1937, as made applicable to Germany and France, Poland, and the United Kingdom, India, Australia and New Zealand by the Proclamation of the President of September 5, 1939 issued under the authority of Section 1 of such joint resolution, ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions; and they are therefore hereby excepted.

I hereby authorize the Secretary of the Treasury to administer the provisions of this regulation and to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out such provisions.

This regulation shall continue in full force and effect unless and until modified, revoked, or otherwise terminated, pursuant to law.

(Signed/ Franklin D. Roosevelt

THE WHITE HOUSE,
September 6, 1939.

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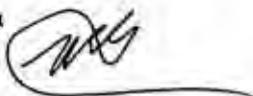
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1939.

TO Secretary Morgenthau
FROM Mr. Gaston



After leaving your office this morning I discussed with Waesche preparedness both in view of the existing situation and in view of situations which might later arise. He is working along both lines. He can supply enough commissioned officers to take care of the enlarged personnel now in contemplation for the present situation, but if circumstances later require a much larger expansion of the Coast Guard force, he would have to adopt emergency measures to increase the number of commissioned officers. This expansion could be accomplished in three ways:

1. By increasing the output of the Coast Guard Academy through
 - (a) increased enrollments;
 - (b) more rapid promotion and earlier graduation.
2. Procuring graduates of first-class engineering schools who could be given brief, intensive courses at the Academy and on the ships.

The present enrollment of first year men at the Academy is 85. From among the applicants who have passed the physical examinations we could probably select as many as twenty who could still be entered in the new class within the next two weeks. I think it would

- 2 -

be wise to instruct the Superintendent of the Academy to take on all the unsuccessful applicants up to forty who, in his opinion, are good officer material. With your consent, I should like to tell Waesche to have this done.

I also instructed Waesche to work up a detailed plan for increasing the output of trained officers.

He believes the warrant officer situation is not a problem as he has plenty of material aboard the ships. I asked him about the number of aged officers not in first-class condition for active work. He said they were few and that headquarters and shore work could be found for them in positions where they would be useful and would not gum up the works.

Newspaper and newsreel men asked for permission to go out on the CAMPBELL. We refused it.

W.S.

September 6, 1939.

Secretary Morgenthau

Mr. Gaston

After leaving your office this morning I discussed with Waesche preparedness both in view of the existing situation and in view of situations which might later arise. He is working along both lines. He can supply enough commissioned officers to take care of the enlarged personnel now in contemplation for the present situation, but if circumstances later require a much larger expansion of the Coast Guard force, he would have to adopt emergency measures to increase the number of commissioned officers. This expansion could be accomplished in three ways:

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 - (a) increased enrollments;
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2. Procuring graduates of first-class engineering schools who could be given brief, intensive courses at the Academy and on the ships.

The present enrollment of first year men at the Academy is 88. From among the applicants who have passed the physical examinations we could probably select as many as twenty who could still be entered in the new class within the next two weeks. I think it would

- 2 -

be wise to instruct the Superintendent of the Academy to take on all the unsuccessful applicants up to forty who, in his opinion, are good officer material. With your consent, I should like to tell Waccho to have this done.

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He believes the warrant officer situation is not a problem as he has plenty of material aboard the ships. I asked him about the number of aged officers not in first-class condition for active work. He said they were few and that headquarters and shore work could be found for them in positions where they would be useful and would not gum up the works.

Newspaper and newsreel man asked for permission to go out on the CAMPBELL. We refused it.

RE DUTIES OF CUSTOMS BUREAU AND COAST
GUARD UNDER NEUTRALITY PROCLAMATIONS

September 6, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Gaston
Mr. Foley
Mr. Cairns
Mr. Johnson
Mr. Waesche
Mr. Duffield

H.M.Jr: Now, I read this thing, and would it be Customs - why not do it this way? Can you tell me verbally what are you doing, beginning with today, in the ports in regard to foreign vessels? What's the thing that you do? And Waesche can tell me what he does. These two teachers will look to you.

Johnson: As the vessel arrives, the Collector of Customs will send his representatives on board, if it is claimed to be a merchant vessel, to determine whether or not it is armed for offensive purposes to work for any of the belligerents. If that is determined in the affirmative, the boat will be turned over immediately to naval officers. If it is determined in the negative, they will proceed with the regular Customs treatment of the boat.

Secondly, as the boat goes out, the boat and its cargo will be examined to determine whether there are any violations of the neutrality, either in the operation of the boat itself or aid to the military purposes of belligerents or whether the cargo contains munitions in violation of the Neutrality Act.

(Hanes comes in)

H.M.Jr: Hello, John.

Hanes: Good morning.

H.M.Jr: How are you?

I'm just going to school.

Johnson, do you mind starting once more? I was just asking him to see what he's doing as of today. Start in once more.

- 2 -

Johnson: As a boat claimed to be a merchant vessel comes in, the Collector of Customs will send his representative on board to determine whether or not it is armed for offensive purposes. If that is determined in the affirmative, the boat will be turned over to the Navy. If it is determined in the negative, we will proceed with our regular Customs and Commerce treatment of the boat.

As the boats go out, they will again be inspected to determine whether they are to be used for any military purpose for belligerents, and the cargo will be inspected to determine whether there is any violation of the arms embargo.

H.M.Jr: Now, is it as simple as that?

Johnson: That's rather complex in detail.

H.M.Jr: Yes, but....

Johnson: But in broad outline it is as simple as that.

H.M.Jr: Do you fellows agree?

Cairns: Well, you're going to take up the passports, you're going to look at the passenger list, details of that sort.

Johnson: For the State Department we are taking up passports issued by the United States which have not been validated since September 4th of this year.

Foley: That's the letter you signed last night.

H.M.Jr: Now, how much of this has been given out to the public - what you're telling me?

Johnson: We've released nothing to the public ourselves.

H.M.Jr: Why don't you....

Gaston: Of course, it's all in the President's proclamation. The first proclamation of yesterday describes what our function is. The President's two proclamations.

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Cairns: Did Duffield give out the Customs telegram last night?

Caston: On the passports?

Cairns: No, to enforce the Neutrality Act - the summary telegram that we sent the Collectors last night.

Caston: I don't think so.

H.M.Jr: (On phone) Send Duffield in, please.

Johnson: Another incidental detail is that it will be up to the Collectors of Customs to see that citizens of the United States do not travel on vessels of the belligerents in violation of the neutrality laws.

Hanes: You mean they can't leave our ports on any foreign vessel.

Johnson: On any vessel of a belligerent.

Hanes: That's what I mean.

Johnson: And they can come in for the next ninety days, if the voyage has begun before that period.

Caston: The question of whether armament is defensive or offensive might in certain circumstances be rather a tricky question. We sent out a letter several days ago giving them instructions on how to decide whether armament is offensive or defensive. For defensive purposes they can carry as many as four guns up to a calibre of six inches. There are a great many other circumstances to take into consideration to decide whether that armament is for offense or defense. And that is in part a duty of the Coast Guard in cooperation with the Collectors of Customs, and the Coast Guard also has to go aboard merchant ships and seal their radio - that is, if their ships are belligerent - seal their radio while in port.

H.M.Jr: Now, what are you - are you (Johnson) through?

Johnson: Yes, sir.

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H.M.Jr: Now, what are your (Wassche) duties?

Wassche: Of course, we will assist the Collector of Customs in carrying out all his duties, as that may be necessary, as far as inspection of ships is concerned. Specifically, in addition to that, when Customs boards a merchant vessel of a belligerent, a Coast Guard officer will go aboard with the Customs people and will seal the radio and will be in full charge of the radio while it is in port, and the seal will not be broken except by permission of a Coast Guard officer. We have made arrangements with the Federal Communications Commission, or will make arrangements, so that they can break the seal with a Coast Guard officer present, to carry on their routine duties with respect to radio. If the vessel is a merchant vessel of a non-belligerent, then it is up to the District Commander of Coast Guard to determine from circumstances whether the radio should or should not be sealed. And the seal will not be broken until the vessel leaves the port, and it will be up to the Coast Guard to see that that is done.

In addition to that, the Coast Guard will be in an advisory capacity to Collectors of Customs as to whether an armament is offensive or defensive.

Now, if it develops that munitions to any great extent are loaded at port, then the duty will devolve on Coast Guard of supervising the loading of those explosives and also the supervising of the anchorages of the port. During the World War we had over 1400 men in New York alone doing nothing but acting as armed guards on vessels, looking at explosives and supervising the anchorages. One of the things that always appealed to me was that nobody could wear nails in their shoes if the ship had explosives. That would make a very large and important duty of the Coast Guard if the situation develops..

Easton: Only in case of the repeal of the arms embargo of the Neutrality Act.

H.M.Jr: Now, in this thing that Foley gave me, he says "The Executive Order assigns to the Treasury and

- 5 -

Commerce Departments, under such further division of responsibility as the Secretary of the Treasury and Secretary of Commerce may mutually agree upon, responsibility for the enforcement of the Neutrality Act."

Now, where does Commerce come in on this?

- Johnson: Unfortunately, the last reorganization order did not transfer the functions of the Navigation Bureau to Customs, Coast Guard and the Maritime Commission, as was recommended. Therefore, our Collectors of Customs act directly under the Department of Commerce in entry and clearance of vessels.
- H.M.Jr: Well, again, as far as I know - has anybody from the office of the Secretary of the Treasury consulted with the Secretary of Commerce to see that this thing would be smoothed?
- Gaston: Well, we've had three or four different conferences with Colonel Johnson and some other people of the Bureau of Navigation on particular points, not on this - general duties under the proclamation.
- Foley: Johnson, Assistant Secretary of Commerce.
- H.M.Jr: Now, how about as of this morning? I mean so there won't be any confusion.
- Foley: Well....
- Gaston: I think it would be very desirable to have another talk with Commerce and get straightened out. There's really nothing that Commerce ought to do in this situation.
- Hanes: As a practical matter, Herbert, they take their....
- Foley:orders from us.
- Hanes:generally from us.
- Gaston: Everything preliminary to clearance - the Collector of Customs in his capacity as Collector of Customs certifies to himself, as agent for the Department of Commerce, that it is all right to clear this boat; then he clears it.

- 6 -

H.M.Jr: But I just - who's been contacting Commerce?

Hanes: Johnson and Herbert.

H.M.Jr: Then would you contact them this morning to make sure everything is all right?

Gaston: Yes, yes.

H.M.Jr: But there is a Bureau of Navigation which should be transferred to Customs?

Waesche: Bureau of Navigation and Steamboat Inspection.

Gaston: The whole thing ought to be split up; the three different functions ought to go to Coast Guard, Customs, and the Maritime Commission.

Waesche: You (H.M.Jr.) approved that.

H.M.Jr: You can't do it with Congress not here?

Waesche: No, sir.

H.M.Jr: He has no war-time powers?

Hanes: You could do it administratively, make it work a lot smoother. The President - I think he could issue an order - that is, off the record, he could issue an order that Commerce Department take their instructions from this Department, and ease the way of administration.

H.M.Jr: Well, Herbert, why don't you talk with the President's Administrative Assistant, Mr. McReynolds?

Gaston: He's a tough man to talk to.

H.M.Jr: What?

Gaston: He's a tough man to talk to, but I'll try it.

Johnson: He is not hard on this point.

H.M.Jr: What?

Johnson: He is not hard to talk to on this point. I think he is very much in favor of it.

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H.M.Jr: Well, will you talk to Commerce?

Gaston: Yes.

H.M.Jr: It sounds as though everything is all right.

Johnson: It is. The functions of Commerce are just as Mr. Gaston described them, to clear the vessel when Customs says it is all right to clear it.

H.M.Jr: Well, just so everything clicks, will you talk to....

Gaston: We'll get Monroe Johnson over here today.

H.M.Jr: And talk to him.

Well, what else is there? I just wanted to make sure.

Johnson: Now, in general, Mr. Secretary, we will treat aircraft in the same manner as vessels. We don't anticipate very many aircraft to deal with.

Hanes: What does it mean that Canada is not included? Does that mean we can ship to Canada?

Foley: Until she declares war.

Johnson: Except for transit purposes. For her own armament purposes we can ship - for Canadian military and naval forces.

Foley: And if it becomes necessary to bar shipments, we can do it by adding Canada's name to the neutrality proclamation.

H.M.Jr: On the orders - I've got here the deliveries on the French - they've taken so far....

Foley: Airplanes.

H.M.Jr:airplanes. And the English I haven't got. I've got the French orders here. What's going to happen to those orders?

Gaston: Can't deliver another plane until the neutrality embargo is lifted.

- 8 -

H.M.Jr: Couldn't they send the parts to Canada and send them from Canada?

Johnson: Parts of airplanes are in the same limitations.

H.M.Jr: The President kept saying consistently that they could.

Foley: Well, he signed an order saying they couldn't yesterday.

Hanes: This says the Martin Company delivered 200 bombers; Douglas hasn't delivered any.

(Foley explains to H.M.Jr. portion of proclamation regarding parts)

H.M.Jr: He's consistently told me, told Bullitt, told the French - you (Hanes) must have heard him in the various discussions - that they could do it.

Hanes: That's right - at the last Cabinet meeting.

H.M.Jr: Yes; only said so yesterday.

(Duffield comes in)

H.M.Jr: Come in, Duffield. Gene, there are two things; maybe you've taken care of them. First, has all the stuff gone out to the press on what we've done in Customs and Coast Guard as a result of the President's signing the proclamation?

Duffield: There were only two telegrams, weren't there?

Cairns: That's all.

Duffield: Yes, that's gone out.

H.M.Jr: Well, these people gave a very clear exposition of it. I wonder if the press understands what we're going to do, and our responsibility.

Duffield: I'm pretty sure they don't.

H.M.Jr: Well now, Herbert....

- 9 -

Gaston: Let them come into my office and we'll explain it to them.

H.M.Jr: Fine. Will you do that?

Duffield: Yes.

H.M.Jr: Because I think - and I'd tell them about the passports. My theory is this. I wish you'd all listen. It's much better to explain publicly what you're going to do than to have an American citizen get on the gangplank and say, "This blankety-blank - what's he holding me up for?" If he reads it in the paper, he knows what he's going to have to go through. Don't you agree, John?

Hanes: Yes.

H.M.Jr: So I think I'd much rather explain these rules and regulations in advance, so a man - an American citizen knows what he is expected to do, rather than have him on the gangplank and have a fellow say, "Well, your passports are not in order and we're sorry, you can't sail." So I think if you'd get the boys together and let Herbert, whoever else is necessary, explain it, see?

Duffield: Fine.

H.M.Jr: Then, the Admiral has got a human interest story for you, about sending these two cutters out and taking these poor people off these merchant men; I mean the people are hungry, haven't got enough food to bring them back. He's sending two cutters. Human interest story there.

Duffield: Good.

H.M.Jr: John, anything else?

Hanes: (Nods no).

H.M.Jr: Want to ask anything?

Gaston: (Handing H.M.Jr. a telegram) That confirms your telephone conversation.

- 10 -

- H.M.Jr: I spoke to him.
- Gaston: Yes, that just confirms what he told you.
- H.M.Jr: Well, that's all I've got. Hanes and I would like to talk to Johnson a minute, unless somebody else wants to shoot something at us.
- Poley: Although nobody knows where the Bremen is, I think it would be a pretty good idea if we got our record in shape so if we ever are sued by the North Bremen Lloyd Line or the German Government, we will have our facts together in one place. And if it's all right with you, I'd like to have Tom Manning go to New York and interview Harry Durning and the other people up there, get the story from the people here, so that we will have a paper record. I don't know whether we will ever be sued or not, but it's possible we might be.
- H.M.Jr: Good idea.
- Duffield: I know where she is. She's out on the ocean somewhere getting "For Sale" painted on her side; then she's going to come back to New York.
- H.M.Jr: What else?
- Poley: After the Cabinet meeting the other day you said that the President wanted to know what emergency powers he had, and it sounded as though somebody was talking about issuing a general proclamation of emergency to invoke all of the war powers. Well, I have a memorandum here that catches up everything that would affect the Treasury that we can think of, or your powers. And I don't think it is a good idea to issue any general proclamation of emergency. I think as we need each of these specific powers we ought to make the particular finding under that statute and we ought to invoke those powers, but we ought not to alarm anybody by putting out a general finding, which would have to be so broad and sweeping in its terms that it might disturb public confidence and at the same time might not legally meet the specific requirements of each statute in so far as those detailed findings are concerned. I think it is much better to deal with the matter as the occasion arises and we need the powers, instead of the general proclamation.

- 11 -

H.M.Jr: The impression I got is that he - he did what he did yesterday and now he's going to rest and let the country catch up with him. That's the feeling that I got, and I hope that's what he'll do. So will you hang on to that?

Now, you (Waesche) are going to recruit up to full strength, aren't you?

Waesche: Yes, sir, I understand the President approved the thousand men.

H.M.Jr: Yes.

Waesche: Well, to get full strength, we'll need more than a thousand, but by that time we'll have another apportionment request. We're going to go ahead and include another thousand.

Gaston: Dan Bell was going to prepare a request to the Budget.

Waesche: Danny Bell talked to me last night. We're sending over a reapportionment appropriation which the President has already approved, to enlist one thousand additional men. That will not be enough to bring us up to strength, particularly if we should need to supervise explosives.

H.M.Jr: Well, I got you what you want. You said to me a thousand.

Waesche: I thought I said two thousand.

H.M.Jr: No, you didn't - excuse me.

Waesche: But anyway, a thousand will do us a good start. I mean to say we can't....

H.M.Jr: I got you what you asked for.

Now, a year ago you had a damn good suggestion. You wanted to take on at that time five thousand CCC boys. Couldn't you use a thousand or so if you can pick them - NYA?

Waesche: Oh yes, and enlist them in the Coast Guard.

- 12 -

H.M.Jr: Well, no, keep them on the payroll....

Waesche: Of the CCC.

H.M.Jr: CCC.

Waesche: We'd have a little - I think we'd have some difficulty in handling those boys.

H.M.Jr: Wouldn't be any use now?

Waesche: No, sir. But we can enlist them if we put them on our payroll.

H.M.Jr: You can enlist anybody. But I didn't know whether a thousand or five thousand - I mean whether you could some of them in life saving-stations, something like that, relieve those people.

Waesche: No, sir, I feel that we wouldn't have very much control over them. They could leave any time they wanted to.

H.M.Jr: All right. Anything else?

Gaston: No, I think not.

H.M.Jr: You take care of explaining this thing.

Gaston: Yes, yes.

H.M.Jr: O. K.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

96

DATE September 6, 1939.

TO Secretary Morgenthau
FROM Mr. Gaston



Admiral Waesche called me at 11:25 to report a message from the CITY OF FLINT in response to our inquiry. The CITY OF FLINT has on board 216 survivors of the Athenia disaster, of whom 106 are Americans and 110 aliens. The ship's master reported that the survivors were "not too uncomfortable" and that none of the injured was in serious condition. There is one concussion and several broken limbs. There are four doctors aboard. The master had food and fuel for reaching Halifax and thought it best to put in there with all survivors rather than to attempt a transfer at sea.

Waesche has instructed the BIBB and the CAMPBELL to proceed as ordered, to keep in contact with the FLINT and to use their discretion. It is his present intention to have the BIBB accompany the FLINT into Halifax and to bring the American survivors from Halifax to New York.

MJD

GRAY

Berlin

Dated September 6, 1939.

Rec'd. 2 p. m.

Secretary of State,
Washington.

1095, September 6, 10 a. m.

As outlined by the decree of September 4 and by presumably approved articles by financial writers German war financing will be along the following lines:

One. Drastic increase of taxes.

Two. The lowering of prices and wages which will reduce the cost of war supplies.

Three. A saving of 50% according to financial writers on all non-military government expenditures including the suspension of all public construction which has no military significance.

Four. Short and long term borrowing.

The new taxes and the contributions levied on the states and municipalities by the war economy decree of September 3 may be expected to yield the following amounts of additional annual revenue (rough estimate):

- (1) Surtax on incomes 1.5 billion marks.
- (2) Tobacco and beer surtaxes 1.0 billion marks.
- (3) Increased excise on spirits 0.1 billion marks.
- (4) Refund of 15 per cent of the state and municipal

shares

MJD -2- No. 1095, September 6, 10 a. m. from Berlin
shares in the Reich income corporation and turnover tax
0.4 billion marks.

No estimate is available at this time as to the
amount of contribution of the municipalities of from 2.5
per cent to 10 per cent of their real property taxes and
trading and residence taxes but it would appear that to-
gether the foregoing additional tax measures would
yield the Reich something over 3 billion marks per annum.

The amount which the Reich Government will save through
the reduction of prices and lowering of wages cannot be
estimated even approximately at this time since the
Price Commissars are given latitude in enforcing wage
cuts and price reductions. The abolition of extra pay-
ments for overtime, Sunday work, et cetera, will be felt
most severely in the building, munitions and machinery
industries where

(END OF SECTION ONE)

KIRK

CSB

NC

GRAY

BERLIN

Dated September 6, 1939

Rec'd 1:45 p.m.

Secretary of State

Washington

1095, September 6, 10 a.m. (SECTION TWO)

Of late it is estimated that probably close to one fourth of the total wages paid consisted of such extra payments. As regards possible savings by eliminating 50 per cent of public construction which in 1938 totaled 7.9 billion marks it is doubted that this can immediately be achieved since there would be an unemployment problem until the workers could be absorbed into military service or an expanded munitions industry. Suspension of work on the autobahns and city reconstruction would permit a saving of two to three billion marks per annum.

At what rate and in what form the Reich expects to borrow the next few months is not known yet. The excess purchasing power created by the various rationing measures would seem to make the moment propitious for floating a public loan if public sentiment is favorable. The general anticipation of financial commentators has been that in case of war the rather complicated expensive and unequal system of financing through the "new
finance

NC -2 #1095 from Berlin, September 6, 1939

finance plan of issuing tax anticipation certificates would be discontinued but no official indication of early action along this line has yet been forthcoming although Finance Under Secretary Reinhard said that after March 1940 the unfortunate three year tax certificates of class two which had been selling at a discount of 5 to 7 per cent would be discontinued.

The action in increasing taxes and lowering wages is considered urgently necessary not merely to cover war expenditure but to absorb the additional purchasing power released through the restrictive rationing of consumption goods of vital necessity which otherwise would have led to an excessive demand for non-essential goods which could only with great difficulty be subjected to rationing. A private estimate places the "excess purchasing power" which will be created by the present rationing measures at from eleven to twelve billion marks per annum. This estimate is based on the view that present restrictions on more expensive foods may reduce by as much as two and a half or three billion marks retail sales of foodstuffs which in 1938 amounted to 13,8 billion marks; textiles and clothing sales by 4 billion marks (1938 sales 10 billion marks) furniture and utensils by 3 billion marks (1938 sales 5 billion)

NC -3- #1095, September 6, 1939 from Berlin (Section Two)
billion) and miscellaneous articles by 1.5 billion
(1938 sales 5.1 billion)

Repeat to Treasury from Heath and to Commerce.
(END OF MESSAGE)

KIRK

CSB

RECEIVED

SEP 6 1939

THREASURY DEPARTMENT
Office of the Secretary
Washington, D. C.

REB

PLAIN

London

Dated September 6, 1939

Rec'd 2:05 p. m.

Secretary of State,
Washington.

1287, September 6, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The city seems to be adjusting itself to its new controlled life fairly well. The main provisions of the recent regulations and orders are being effectively administered and complied with but innumerable cases have arisen which do not fall clearly within the four corners of the enactments and upon which official decision has to be rendered. It seems likely that the next month will be consumed in liquidating positions in compliance with the regulations and in ironing out the most obvious of the special cases. The more difficult ones in which legal advice may well be required will no doubt take many months.

2. My own feeling is, particularly with reference to the subject matter of my 1344 of September 1, 1 p. m. that the sooner controversial cases affecting Americans are dealt with by the British authorities the better treatment they

REB -2- #1487, From London, Sept. 6, 8p.m.

they will enjoy. At the present time both American and other foreign banks, although they may be critical of certain provisions of the recent enactments, are satisfied that they are being administered in a fair and equitable manner. As the war develops into a life and death struggle it is to be expected that the peace-time regard for equity may be modified by the war-time necessity of survival.

3. The following are the official rates for today: United States 4.02-6; Canada 4.40-44; France 174-5; Belgium 23.42-72; Holland 7.57-64; Switzerland 17.93-18.11; Sweden 16.88-17.05. The only changes as compared with yesterday are with respect to Canada and Belgium; in the case of the former the rate was 4.47-51 and in the case of the latter there was only a buying rate of 24.16.

4. Authorized dealers may sell exchange to other banks or the public (a) to comply with pre-war contracts (b) to meet reasonable requirements of a business carried on in the United Kingdom and (c) to defray reasonable travelling expenses. Other applications must be referred individually to the Bank of England. The Bank of England is to open accounts in the currencies affected with the authorized dealers who have been advised to preserve normal relations with their foreign correspondents. Responsibility is to be accepted by the Bank of England for balances held by
dealers

REB -3- #1487, From London, Sept.5,8p.m.

dealers with their foreign correspondents as its agents but foreign balances held by dealers for their own account will not be so covered. To prevent disturbances in the London money market the Bank of England will sell spot exchange to dealers and buy back for forward delivery. Authorized dealers doing business with other banks are permitted to charge a commission of 1/8 percent which is equivalent to about 1/2 a cent in the dollar rate as fixed yesterday.

KENNEDY

CSB

RECEIVED

SEP 8 1938

TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR FOREIGN AFFAIRS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
1939
DATE: September 6, /5 p.m.
NO.: 1806.

FOR THE TREASURY

Today at noon we were informed by Reynaud that France had really gained some gold yesterday and that she seemed pleased about it.

Nevertheless, it is growing more difficult to make exchange transactions. This was apparent in this afternoon's market. Bank of France continues to buy dollars at 43.30 and pounds at 175.30. It also buys continental currency at rates which differ ~~only~~ very little from those of yesterday. However, today at least the bank is selling neither pounds nor dollars, although, upon presentation of authenticated merchandise import contracts, it will consider selling necessary exchange. Until yesterday there was almost a balance of purchases of foreign exchange and sales.

(END SECTION ONE)

RAW

PARIS

GRAY

Dated September 6, 1939.

Rec'd. 4:30 p.m.

Secretary of State,
Washington,

1806, September 6, 5 p.m. (Section Two). Today, however, there are few sellers of foreign currencies and operations are becoming more difficult. There is naturally uncertainty as to the Government's future exchange policies as the banks are in the dark and no announcement of the British control's rate policy has been made as far as is known here. The banks here are accordingly very cautious though they will sell small amounts of dollars and pounds to their own clients where convinced that the transaction is "legitimate". They are merely feeling their way however, and are not acting on any suggestion either verbal or otherwise from the authorities.

RECEIVED
TREASURY DEPARTMENT
SEP 8 1939
There was a very small turnover of securities on the Bourse with a heavy tone. There was good resistance however and rents dropped but 70 centimes to 1 franc. International stocks such as Rio Tinto and Royal Dutch were naturally up.

The death after a short illness of Bizot Under Governor of the Bank of France is announced today.

BULLITT

csb

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: September 6, 1939, 8 pm

NO.: 1485

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer announced in the House of Commons today that with a view to concentrating all the British Government's foreign resources in one reserve, the British Treasury and the Bank of England have agreed to transfer the whole of the gold now held in the Issue Department of the Bank of England (except for a nominal amount) to the exchange equalization account as now constituted under the currency (defence) act and that gold to the approximate value of pounds 280,000,000 will accordingly be transferred today involving an increase in the fiduciary note issue of the Bank of England from pounds 300,000,000 to pounds 580,000,000. Thus the fundamental orthodox basis of the British currency system providing a gold backing to the note issue with a fixed marginal fiduciary issue is completely abandoned and this step may be regarded as the most revolutionary departure from precedent in the various war finance measures. The note issue will be all "fiduciary issue" with no gold backing in the Bank of England.

The memorandum on British overseas assets dated August 29, 1939 mentioned the possibility of such a step
on

on pages two and three. Therefore it now appears more than likely that Britain might prefer to use this gold for war purchases before disposing of securities. Re your telegram No. 687 of August 24, 8 p.m., in accordance with your instruction the situation is being closely watched. However, it would appear that unless the United States Government is prepared to take the initiative at the appropriate time by limiting - if that proves necessary - the amount of gold imports in some such way as suggested in my telegram No. 1248 of August 25, paragraph three, we may well be faced with the question of liquidation of mobilized American securities only after a substantial amount of British gold resources has been used. On pages 20-21 of the memorandum mentioned above the possible consequences of such action were suggested.

KENNEDY.

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EA:LWW