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Book 210

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GRAY
PARIS
Dated September 7, 1939
Rec'd 3:25 p.m.

Secretary of State
Washington

1835, September 7, 6 p.m.
FOR THE TREASURY.

The exchange market today resembled that of yesterday in dearth of transactions. The Bank of France quoted a buying rate of 175.95 for pounds and 43.50 for dollars. It was willing to sell foreign exchange on presentation of bona fides import licenses and did so. For example, in a transaction with the Guaranty Trust for one of the oil companies, the control sold dollars today through the Credit Lyonnais and the Comptoir National. As indicated, it will sell only to responsible banks and where convinced that the transaction is "legitimate"; it has however issued no instructions to banks concerning foreign exchange operations and has no objection to their dealing therein, where and if they can find their own sellers of foreign securities. In other words, through its refusal to sell foreign currencies except as above and given existing war conditions and the natural caution of banks thereunder, the
the control is accomplishing its objectives without establishing any formal regulations or restrictions for the moment.

(END SECTION ONE)
Secretary of State,
Washington.

1835, September 7, 6 p. m. (SECTION TWO)

The security market was again inactive but (?) and quotations were largely nominal. Rentes were off 10 to 30 centimes except a dollar exchange guaranty issue of 1937 which continues to gain. The Bank of France statement published today for the week ending August 31 could hardly be called satisfactory and shows the effect of the then impending war. Advances under the commercial portfolio increased by 7,000,000,000 francs, to a total of 15,000,000,000. The item under which "open market" operations are reported increased by 784,000,000, and 30-day advances increased by 693,000,000. The note circulation increased by 12,000,000,000 to 142,000,000,000. The account of the Treasury decreased by 1,000,000,000 francs to a total of 1,252,000,000. Total withdrawals from current and deposit accounts amount to 3,970,000,000. As total demand liabilities thus increased by about 8,400,000,000 francs the ratio of gold cover fell from 62.64 to 59.42%.

(We
(We give below as of possible interest for comparative purposes the changes which occurred in the bank statement for the crisis week ended September 29, 1938: commercial portfolio advances increased 7,000,000,000 francs to a total of 20,000,000,000; open market operations increased by 214,000,000 and 30-day advances were up 727,000,000,000; note circulation increased by 14,860,000,000 to a total of 124,000,000,000; the Treasury account decreased by 120,000,000 to a total of 345,000,000. The ratio of gold coverage fell from 43.01 to 38.37% -- this was, of course, before revaluation of the bank's gold.)

(END OF MESSAGE)

BULLITT
London
Dated September 7, 1939
Rec'd 4:45 p. m.

Secretary of State,
Washington.

1516, September 7, 9 p. m.
P.O.R. FOR TREASURY FROM BUTTERWORTH.

An agreement will be signed at the Foreign Office today by which the British and French Governments undertake to lend Poland £8,500,000. British Treasury states that of this amount £5,000,000 will be supplied by the British Government and £3 1/2 million by the French Government, the latter having asked that its previous advance of £1 1/2 million to Poland be taken into consideration. The manner in which this money will be expended will be decided from time to time but a substantial part of it will go to meeting sterling and franc obligations of the Poles which they are now not able to deal with.

(END SECTION ONE)

KENNEDY

NPL
PARAPHRASE OF SECTION TWO, TELEGRAM NO. 1516
OF SEPTEMBER 7, 1939, FROM LONDON

The British Treasury, however, states in strict confidence that the Poles have been informed by the Soviets that they are prepared to sell supplies to them. Therefore, for that purpose the French and British Governments have agreed to permit the Poles to use 1,000,000 pounds from each. It remains to be seen whether the Soviets will do as they said they would.

I am informed by the Polish Financial Attaché, incidentally, that happenings came so fast that Poland only received a few thousand pounds worth of goods out of the British credit of August 2 in the amount of 8,500,000 pounds.

From the British Treasury I also gather that Turkey is again asking for money. I understand that there is great concern on the part of the British Embassy in Turkey that everything should be done to line up the Turks.

BULLITT.

EA:LWW
Secretary of State,
Washington

1516, September 7, 9 p.m. (SECTION THREE).

Foreign exchange rates as fixed today remained unchanged except for Belgium which was fixed 33.42-72 and Switzerland which was 17.87-18.05.

The Bank of England return shows a decrease of £263,000,000 as compared with last week in the gold held in the Issue Department (gold was valued at 1586.6D. last week and 1588. this week so that the sale of gold by the Bank of England was £278,000,000). There was an increase of £20.4 million in the note circulation making the total £549.9 million. A decrease in public deposits of £16,000,000 and an increase in bankers' deposits of £21,000,000 reflects the heavy government expenditure of the past week. An increase in government securities in the banking department of £280,000,000 is a consequence of the gold transfer to the exchange equalization account.

Meanwhile money market conditions are relatively easy with overnight accommodation at 3 percent and 3 1/4 percent against Treasury bills and bonds respectively and bills were sold at 3 1/8 and 3 3/8 percent for October and November.
LAR-2-1516, September 7, 9 p.m., from London. (SECTION THREE).

November dates respectively.

The Treasury is obviously obtaining large quantities of foreign exchange and as this is changed into pounds in the hands of the public and financial institutions the money market will further ease and improve the conditions for the floating of long term war loans.

The Stock Exchange opened today and was quiet with little inclination to do business, only about half the usual number of clerks being in their offices; the tone was fairly firm with gilt-edged steady.

The transfer of the Bank of England's gold to the exchange equalization account was approved in the press, which, be it noted under censorship is mainly interesting as the reflection of a government point of view, and emphasized that the stop was not an inflationary one since the fixed "fiduciary issue" at £580,000,000 might well have been exceeded if the price of gold had further increased. The press also takes it for granted that the gold will be used for war purchases and indeed emphasizes that such was considered to be the intention all along.

(END OF MESSAGE)

KENNEDY

NPL  932

Regraded Unclassified
To: The Secretary
From: Mr. Hanes

The British Ambassador stopped by at my request after having seen the Secretary on the matter of British purchasing policy in this country during the war. I told him that I wanted to clear in his mind any misapprehension that he might have concerning the Secretary's suggestion to him and to the French Ambassador that the United States Government take over the S. S. Queen Mary and the S. S. Normandie in exchange for a credit of a given amount (to be decided upon) on the English and French debts to the United States.

I explained very carefully to the Ambassador that, whereas the proposal may have sounded somewhat in the nature of a suggestion which would take advantage of the unfortunate situation in which they now find themselves, this was not at all what the Secretary had in mind; that his suggestion was prompted entirely by a desire to be helpful to all concerned in the present crisis, and at the same time to maintain a policy of the strictest neutrality.

The Ambassador was extremely grateful for this information and said it would be most helpful to him in clearing up any misunderstanding which might have been created had the matter been allowed to rest where it was. The Ambassador stated frankly that he had refrained from discussing this matter further this morning with the Secretary for the reason that he had been given to understand by Mr. Welles that it should be forgotten. He said that in view of this circumstance, with which he judged the Secretary was familiar, no further reference to the incident was necessary.

I may have gone a bit too far in assuring the Ambassador of our desire to help. However, I put this entirely on a personal basis, having no reference whatsoever either to his position with his government, or my position with mine. I am sure that he went away with a totally different feeling than he had before.

J. W. H.
My dear Mr. Secretary:

In response to your letter of September 7, 1939, advising me of an advisory committee which you are creating for the handling of questions that may arise in connection with the Executive Order signed by the President on September 6, 1939, having to do with Section 3 of the Neutrality Act, I have requested Assistant Secretary Adolf A. Berle, Jr. and, as alternate, Mr. Herbert Feis, Adviser on International Economic Affairs, to represent the Department on this committee.

Sincerely yours,

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
THE WHITE HOUSE
WASHINGTON

September 7, 1939

MEMORANDUM FOR SECRETARY MORGENTHAU

To speak to me about.

F. D. R.

Enclosure
Two powerful war committees have been appointed with the blessing of the Administration, namely, the War Resources Board, which will dominate American industry, and the Financial Advisory Committee, which will dominate the entire realm of American finance. The majority of both committees are representatives of J. P. Morgan & Co. On War Resources Board are: Stettinius of U. S. Steel, as Chairman; Gifford of AT&T and Pratt of General Motors. On Financial Committee are: Potter, of Morgan's Guaranty Trust, as Chairman; Fraser, of Morgan's First National Bank, Vice-Chairman; and Henry Morgan, son of J. P. Morgan, representing all investment bankers. It has also been announced that J. P. Morgan & Co. have been appointed fiscal agents for England.

As you will remember, during the World War the Morgan firm not only handled all allied purchases of materials and supplies, but also arranged the vast credits which made those purchases possible - both operations at substantial profits to the Morgan house. Thoughtful people throughout the country have been shocked by the placement of these powerful boards in Morgan's hands.

The War Resources Board should be composed of bona fide representatives of the nation's industrial areas rather than by men located in and connected with the New York financial district. The Financial Advisory Committee should be representative of the entire country.
September 7, 1939

The British Ambassador was here. He said that only today he received a report from Lord Riverdale on how they should do their purchasing. He has not yet had time to read it. This they will start in Canada and then set up some sort of an agency in New York. As soon as he knows he will let me know.

I asked him what arrangements they had made about disposing of American securities which they have taken over in this country and he said that they have made no arrangements and would let me know just as soon as they have.
MEMORANDUM FOR SECRETARY MORGENTHAU

There is furnished below a paraphrase of a telegram just received from the American Ambassador at London:

LONDON
Dated September 6, 1939

Secretary of State
Washington

1500, September 6, 5 p.m.

FOR THE SECRETARY OF THE TREASURY

Your conversation with the French and British Ambassadors in Washington was recounted to Butterworth this morning when he was called to the British Treasury and read a telegram from Lord Lothian. According to the British Treasury, which stated that it had received the question from the Foreign Office, no reply to the proposal concerning the turning over as part payment on the war debts of the NORMANDIE and QUEEN MARY could be formulated unless further information concerning the proposal’s nature and extent.
tent was furnished which it requested be obtained. I accordingly request you to transmit the desired details which I shall send the British Treasury.

Because of the present times, I feel that I should not have to be informed about things vitally concerning Great Britain by the British Government and that I should be maintained up to date on actions in Washington.

KENNEDY
Captain Callaghan:  Fine, sir. How are you, sir?

HMJr:  I'm fine.

C:  Mr. Secretary, that man you spoke to me about -- about the retired officer yesterday.

HMJr:  Yes.

C:  The Navy Department says they think that that's perfectly all right, sir.

HMJr:  Fine!

C:  Now, about the Byrd Antarctic Expedition -- Expedition, sir.

HMJr:  About the Byrd.

C:  Yes, sir.

HMJr:  Yes.

C:  I find that -- that two of the ships will be ready to leave, according to the Navy Department data here, towards the first of November, and the -- the BEAR will be ready to leave between the 15th of November and the 1st of December.

HMJr:  Yeah.

C:  All fully equipped and ready to go.

HMJr:  Yeah.

C:  According to the information here that will still give that expedition time to get in there and -- and get settled before the winter season starts in.

HMJr:  Yeah.

C:  Now, I gave that information to the President late yesterday, sir, and he didn't say one way or the other about the expedition.

HMJr:  Yeah.
C: I -- I assume that he'll probably take it up with you to find out whether the thing is to go on or not.

HM Jr: Well, as I gathered -- of course, we were talking awfully fast -- that he -- that if they were ready they'd go along.

C: Yeah.

HM Jr: But now I -- I take it that if they are ready, that he wants them to go on down.

C: Yes, sir. Well, I -- I didn't know just what his -- I didn't hear the preliminaries of that conversation so.....

HM Jr: Well, I just said that I thought that unless -- that these things are vital, and it was a mistake to tie up all this equipment at this time.

C: Yes, sir.

HM Jr: So he said, "Well, as far as the one with the National Geographic was concerned, kill it."

C: Yes.

HM Jr: The other one, on account of establishing -- whatever you call.....

C: Yes.

HM Jr: .... -- possible air bases there, he'd like to go through with that.

C: Yes, sir.

HM Jr: So I think we'll let the Byrd Expedition go through then.

C: Well, I -- I think it's perfectly all right, sir. According to the present indications everything will be all set and they can get away in time.

HM Jr: Right.

C: A little bit later than they originally planned, but still in -- in plenty of time to carry out.
HMJr: Well, I -- well, I -- I think I'll just drop it.
C: All right, sir.
HMJr: Now, look -- let me give you a thought while I've got you on the wire. When this -- these destroyers are going up on this trip, I'd like to make a suggestion that they take a look at the islands of Miquelon off Newfoundland -- you know, San Pierre and Miquelon, those two islands.
C: San -- yes, Miquelon and San Pierre.
HMJr: Now, I flew over them.
C: Yes, sir.
HMJr: And Miquelon, -- of course it belongs to the French....
C: Yes, sir.
HMJr: ....is so situated, ideal protection for a flying boat to land.
C: I see.
HMJr: And there's a tremendous big flat space with -- with a little -- looks kind of swampy and it looks to me as though -- as though -- two or three miles either way, which would make an ideal landing field.
C: Um-hm. That's on Miquelon, sir.
HMJr: On Miquelon.
C: Yes, sir.
HMJr: And -- of course, it's a strategic place and I think it's a much better place than Botwood.
C: Um-hm.
HMJr: And if we wanted a jumping-off place at any time, I wondered if when the Navy was up there, they couldn't just land there and make a report on it.
C: Well that's a good thought, sir. I'll......
HMJr: What?
C: I'll pass that thought on.

HJr: Because it's so -- the little island is so situated it would be perfect for a sea plane to land.

C: Right.

HJr: It looks like deep water from the chart.

C: Yes, sir.

HJr: And there's a tremendous big flat space which with not too great expenditure, I think would make a marvelous landing field.

C: Um-hm. Well, I'll -- I'll pass that word along, Mr. Secretary.

HJr: And we might take it from the French and give them a credit on their war debt for it.

C: Um-huh. (Laughingly) Well, I'll -- I'll put that thought in their minds here and the first -- the first destroyers that go up in that area, we'll have them drop in and take a look and see.

HJr: Well, as I understand, these two destroyers are going up that way now.

C: Well, they -- they don't go up quite that far, sir.

HJr: Well, they might.

C: They -- it's possible that they might. It will depend......

HJr: What I was thinking, if it's worth while sending all these ships down to the South Pole......

C: Um-hm.

HJr: ......this thing -- it's so much more important and in such a strategic place.

C: Yes, sir. Well, I'll -- I'll -- I'll pass that thought on, Mr. Secretary, and have somebody take a look and see at that.
HMJr: And I appreciate your promptness in calling me this morning.

C: All right, sir. All right, Mr. Secretary.

HMJr: Thank you.

C: Thank you, sir.

HMJr: Goodbye.

Hello. Good morning, Mr. Secretary.

Good morning, Waesche. Anything new particularly in your department?

No, sir. Nothing at all.

I see. All right. Now when am I going to hear about -- I'm counting on you to let me know about when the Bergensfjord gets in tomorrow.

Yes, sir. We -- we got a -- we haven't heard from New York this morning. I told them -- we told them yesterday to let us know the -- as soon this morning as they found out. I'll check up with them right away and -- and push them on it.

I could know by one o'clock.

Yes, sir. One o'clock.

After you've got the lighthouses now, you ought to know whether she passed the Fire Island light.

We will -- we'll -- we'll know even before she gets to Fire Island light because she -- she's not due until tomorrow morning.

What -- what is the -- where would she -- she does about four hundred miles. Where would she be?

Ah......

What lighthouse would she be off?

Well, let's -- she would be -- when -- would not have reached Nantucket lightship as yet -- that is, it's a less than a 24-hour run from Nantucket lightship to New York.
HM Jr: Do you have radio communication with Nantucket lightship?
W: Yes, sir.
HM Jr: You can -- will you send them a radio?
W: Yes, sir, we'll do that. I'll get in touch with New York right away and if they have not found out anything at all within the -- by the time I call them, I'll have them send a message out to Nantucket lightship and have them report from there if and when they see the ship.
HM Jr: Why not do that anyway?
W: We'll do it anyway, all right.
HM Jr: The Nantucket lightship is under you now, isn't it?
W: Yes, sir.
HM Jr: What?
W: Yes, sir.
HM Jr: Well, send them a radio and say that headquarters wants to know when the Bregensfjord passes.
W: Fine.
HM Jr: What?
W: Yes, sir. You got the word about the Bremen?
HM Jr: No.
W: The Bremen is up in -- I'll spell the name for you -- but up on the Arctic Ocean up there near the White Sea, northern part of Russia. Wait I'll -- I'll get the exact name.
HM Jr: Really?
W: Do you want it?
HM Jr: She's up in the White Sea?
Yeah, up in the Arctic Ocean.

Well, how in the hell did she get there?

It's -- she's at M-U-R-M-A-N-S-K.

Murmansk, yeah.

M-U-R-M-A-N-S-K. She went up around the northern end of Finland, Norway and Sweden into the Arctic Ocean and then back just below the Arctic circle at the Soviet port of Murmansk -- M-U-R-M-A-N-S-K, which is very close to the -- ah -- border of Finland.

Well, -- ah--.....

Near -- near the White Sea.

All right. Now, just as a matter of interest, I'd like to see whether -- how well you're organized -- whether you can send a radio to Nantucket and find out what time she passes there.

All right, sir. I will.

And I would also find out.....

And while we're doing that I think we'll simply tell the Nantucket lightship to report into New York every -- every steamer that passes.

What's that?

I think we'll order -- we might as well tell the Nantucket lightship to report to our New York district every ship that passes.

Why wouldn't that be a good idea?

I think it's an excellent idea.

What?

Yes, sir.

I mean, they might as well be doing something out there.
W: Yeah, and then get them -- give them a little training.

HJr: I think it would be a good idea.

W: Yes, sir.

HJr: O. K.

W: All right, sir. I'll do that right away.
Hello.

Mr. Frank.

Thank you.

Go ahead.

Hello.

Good morning.

How are you?

Very good, thank you. I'm sorry to bother you, but I wondered whether a review of those minutes showed any such discussion as......

Yes, it did in full detail. He outlined the whole plan on April 13th.

When I was present?

No, you were not there.

Oh, well then he's totally in error in saying that I was.

No, you were -- you were -- now wait just a second. I haven't got the thing; I sent it back. No, you were not present. There was a group of people here but he -- he outlined it in great length -- just about the committee and all the rest of it, and so forth.

Well, did he -- was it -- was there a discussion to the effect that such a committee was to make suggestions and -- and proposals to the various governments -- governmental agencies?

I tell you, I'll -- I'll have a copy made and send it to you.

All right, thank you, but he's surely in error in saying that we were present.
HMJr: I don't think anybody from the S.E.C. was present. I -- I'll send you -- I tell you what I'll do, I'll have an extract made of that.....

F: Yes.

HMJr: ......and send it to you, plus the people who were there.

F: All right, thank you.

HMJr: I called up George and told him that as soon as the bond market straightens out I'd like him to come down and have lunch with you and me.

F: All right.

HMJr: He said he'd be delighted to.

F: Thank you very much.

HMJr: So I think you might maybe let the thing rest until then?

F: Well, the only thing that bothers me, the newspapers keep buzzing about things that are doing and if he has -- has told that committee that they were appointed with our understanding, that they were to be appointed and were to make proposals and suggestions to us, the difficulty is this: Of course, any group of citizens can make any proposals they want to anybody.....

HMJr: Sure.

F: ......that's in the government. That's quite another matter from a suggestion of proposal made to us by somebody that we've blessed.

HMJr: Well, I just would say this: He's been under a terrific strain this week.

F: Yes.

HMJr: George has because it was -- as you know the bond market.....

F: Yes, of course.
HMJr: And, incidentally, for the last hour it's taken care of itself.

F: That's fine.

HMJr: The government bond market.

F: Fine!

HMJr: And -- but I'll have a copy made......

F: All right, thank you.

HMJr: ....and I'll send it -- and I'll give you a list of who was there.

F: All right. Thank you very much.
Hello.

Operator: Captain Callaghan.

HMJr: Hello.

Captain Callaghan: Hello, Mr. Secretary.

HMJr: Hello, Callaghan.

C: The President just brought up the question of the Bear expedition again, sir.

HMJr: Yes.

C: The Byrd expedition, rather.

HMJr: Yes.

C: And he -- he put forth this thought.

HMJr: Yes.

C: He wanted to know how efficient the expedition would be if we withdrew the NORTHLAND, that's the Coast Guard vessel......

HMJr: Yes.

C: ......and let the expedition establish only one base with the BEAR and the NORTH STAR, I think is the other one.

HMJr: Yes.

C: He wanted to know what your reaction would be to that sir; or what the reaction would be to that.

HMJr: If they withdrew the......

C: ......NORTHGUARD -- the NORTHLAND, I think is her name.

HMJr: Right.

C: And the other two vessels, the BEAR and the -- and the NORTH STAR, I think is the name of the third vessel -- those two alone would establish just one base.
HM Jr: I see.

C: Instead of us trying to establish two.

HM Jr: Well, I'll get an answer for you as soon as I can.

C: All right, sir. Fine.

HM Jr: Thank you for calling.

C: Yes, sir. Goodbye.
Hello.

Operator: Captain Puleston.

HMJr: Hello.

Captain Puleston: Hello, Mr. Secretary.

HMJr: How are you?

P: Fine. How are you.

HMJr: I'm quite well.

P: I -- I'll bet you are! (laughs)

HMJr: Captain, I'm calling you up after clearing this with the President's naval aide. Hello?

P: Hello?

HMJr: I say -- what I -- I'm talking to you, but before I did this I talked with Captain Callaghan......

P: Yes.

HMJr: ......and I got a clearance from him and from the Navy Department.

P: Yes.

HMJr: Now, what I want is to ask you whether you'd care to come down here and -- in the Treasury......

P: Yeah.

HMJr: ......and to evaluate the war news for me.

P: Yes.

HMJr: And -- we need somebody very badly who will be here and tell us what's going on and what it's all about.

P: Well, I -- I'd like to come, Mr. Secretary, if you want me.

HMJr: What's that?
P: I -- I'm -- if you want me, I'll like to come.

HMJr: Well, I -- well, I -- I do want you, and as I say, I got a clearance on this from Captain Callaghan first.

P: Yes.

HMJr: And he cleared it -- called me and said it was all right to ask you.

P: Yes.

HMJr: So if you could be here Monday morning?

P: Ah -- this -- this coming Monday. Oh yes, I could be there Monday.

HMJr: And ready to go to work, and then we'll make -- you'll make your contacts, I mean, with the Army and Navy and -- and so that -- well, that you can keep me posted. You see?

P: I -- well, I -- I'll come on down and -- on Monday and we'll -- we'll fix it up afterwards what I am to do. (Laughs)

HMJr: Well, you know what I want.

P: I know what you want, and I'll try very hard to do it.

HMJr: Well, there's nobody can do it any better than you.

P: (Laughs) Well, I -- I hope you'll think so when -- at the end of a couple of months.

HMJr: Well, is everything.....

P: Did you have a nice time coming home?

HMJr: Pardon?

P: Did you have a good time coming home?

HMJr: I wouldn't call it that. Have you ever crossed in a two thousand ton boat?
P: (Laughs) You know, I followed your movements with considerable interest. (Laughs)

HJr: Well, if you've got somebody you don't like, let me know and I'll send them across the ocean in a Coast Guard cutter.

P: (Laughter) I've been in them.

HJr: I know you have.

P: (Hearty laughter) They're not so good, are they?

HJr: Yeah, but you're a professional; I'm only an amateur.

P: Well, I'll -- I'll be down there Monday then, Mr. Secretary.

HJr: Fine.

P: And I -- I suppose you'll -- you'll have everything cleared up by then with the authorities.

HJr: Well, I don't know what else there is to do. Callaghan said that......

P: I suppose I'll have to have some orders or something.

HJr: Well......

P: You take that up with Callaghan and can do it.

HJr: Well, I don't know just what the orders -- but he called me this morning and said that it was all right to invite you in.

P: Yeah. Well, I'll -- I'll be down, Mr. Secretary.

HJr: Righto.

P: On -- on Monday.

HJr: Thank you.

P: Good luck.
Operator: Hello.

HM Jr: I can't get Mr. White. He has evidently not gone back to his own office yet.

HM Jr: Well, gosh, I won't bother. If he'd go home, I'll reach him at home when I'm ready.

O: Wait a minute, here he is. He's in your outer office now. Just a minute. I have Chairman Eccles. Talk to him first?

HM Jr: Yes.

O: Right. Go ahead.

HM Jr: Hello.

Marriner Eccles: Hello. Hello, Henry.

HM Jr: Hello, Marriner.

E: I just wanted to say that I've been planning on leaving here on Saturday, taking the plane out Saturday afternoon going out home 'til -- it looks like it -- 'til Congress meets it may be at least a temporary interim period here.

HM Jr: Yeah.

E: That's assuming that tomorrow -- nothing happens tomorrow and Saturday. I think the -- I think the security market -- the particular bond market has pretty well run its course.

HM Jr: Yeah.

E: And the -- we're up -- I think -- I think we're pretty well on top of it now, and if tomorrow or the next day demonstrates that fact -- I don't mean by that that there's not going to be some fluctuations, but I don't think we're going to have the same serious problems we've had for a week here.

HM Jr: No.
E: And I just wondered if you saw any -- any -- any objection -- any reason why I shouldn't get away for a week anyway, or so, pending on developments. Of course, I can always take an overnight plane and come back.

HMJr: No, I think if things quiet down and you've got plenty of help there and you've got to go home for a week, why I'd go.

E: Well, I -- I've only been there about four or five days since last October.

HMJr: Well then, I think........

E: (Laughs) And I need to really get out there and -- I don't know, it just seemed to me that this may be as good a period as any unless you saw some........

HMJr: No.

E: ....... -- some -- something that I don't see about it.

HMJr: No, I don't see anything. You can always come back, as you say, in 24 hours.

E: I can come back in 13.

HMJr: Yes. Well.......  

E: I'm not looking for another trip back though and I wouldn't go if I thought I had to come back immediately.

HMJr: No.

E: Well, I -- I understood you were going out of town and I........

HMJr: Yeah.

E: ....... -- I just didn't want to go out without......

HMJr: Well, that -- I......

E: .......checking with you.
HMJr: Well, that's terribly nice.

E: And so......

HMJr: If there's anything I'll give you a ring.

E: Well, -- oh -- I wish you'd do that. I'll be available, and so I -- I'll plan on getting out of here by -- by Saturday, unless there's developments tomorrow or Saturday that make it appear that I shouldn't go.

HMJr: O. K.

E: All right then.

HMJr: Thank you, Marriner.

E: Goodbye.
Hello.

Operator: Frank.

Jerry
Frank: Yes, sir.

Jerry: Hello, Jerry.

F: Yes.

Jerry: Henry Morgenthau.

F: Yes.

Jerry: Did you call me?

F: Oh -- oh, it was just -- I -- I just -- Mrs. -- I got the message to Mrs. Klotz.

Jerry: Yes.

F: I just wanted to be fair to Harrison and make sure......

Jerry: Yes.

F: ......that he hadn't discussed another committee, because he indicated in his telephone conversation to me that he had two com -- there'd been discussions of two committees.

Jerry: Well, I really don't know. We can't find anything.

F: You can't. All right, thank you.

Jerry: No, but why don't you -- if I might make the suggestion, why don't you wait now until you see him next week and talk it over?

F: Well the only bother now is this, I'm afraid of these boys and I'm afraid that Potter will go sounding off on something.

Jerry: Oh.
And what I wanted to make sure -- I -- I'm just dictating a letter -- draft of a letter which I thought I'd send to you.

Yeah.

For your -- see whether you disapproved.

Yeah.

Calling his attention to this fact -- that since committees are acting, in effect, as advisers to the Treasury and the Federal Reserve and were appointed on that basis that they are not merely private groups of citizens.

Yeah.

And therefore ought not to publicize any comments they have to make concerning our activities, but ought to transmit them to you and the Federal, which, of course, would do as they always do in any such matters, send them to us without publication.

Well, send it over to me.

All right, I'll send it over either tonight or tomorrow morning.

Thank you.

Thank you.

Goodbye.
September 7, 1939
5:38 p.m.

HMJr: Hello.
Operator: Captain Collins. Go ahead.
HMJr: Collins.....
Captain Collins: Yes, sir.
HMJr: The Secretary speaking.
C: Yes, sir.
HMJr: There's all sorts of mix-up as to just when this Bergensfjord gets in. The Collector of Customs has given us a different time.
C: Yes, sir.
HMJr: Where do you get your information from?
C: As to ships?
HMJr: Yes, the Bergensfjord.
C: I don't have any information on them, sir.
HMJr: Who is this?
C: This is Collins over at......
HMJr: Oh -- oh.....
C: ......Procurement.
HMJr: ......I was asking for Waesche. I thought it was Coast Guard. I'm sorry.
C: Well, did you want me to
HMJr: No, no, no, I got I'm sorry.
C: No.
HMJr: They gave -- I asked for Waesche.
C: Yes, sir.
HMJr: I thought I was talking to Waesche.
C: Yes, sir.
HMJr: What I wanted to say was this: This information which you gave me on these strategic materials....
C: Yes, sir.
HMJr: I want the balance of that. You said there are eight altogether, aren't there?
C: That's right. Four more. Yes, sir.
HMJr: And you've got to find some way to get it to me to the farm by Sunday morning.
C: Well, I'll get it to you somehow, sir. (Laughs)
HMJr: See?
C: Yes, sir.
HMJr: You can do it through Secret Service. They'll bring it up. They -- they -- they'll have a man up there anyway.
C: Aye, aye, sir. I'll have it -- I'll have it rolling tomorrow night, sir.
HMJr: Have it up into my hands by Sunday morning.
C: Yes, sir. I shall.
HMJr: Thank you.
C: You're welcome, sir.
Hello.

Mrs. Herbert.

Hello.

Yes, Mr. Secretary.

Mrs. Herbert, make a note that the President said that we should -- it's not necessary to send the NORTHLAND with Admiral Byrd to the South Pole. Have you got it?

Yes, sir, that the President says that it is not necessary to send the NORTHLAND with Admiral Byrd to the South Pole.

Yes.

Yes, sir. Mr. Gaston has gone home, Mr. . . .

He did. Well, I'm giving it to you and . . .

Yes.

. . . . . it's up to you to get it to Mr. Gaston.

Yes, I'll see that he gets it.

Tonight.

Yes, sir.

Aighto.

Yes, sir.

Thank you.
I don't feel it's up to me to advise the American Ambassador over there. I don't.....

I can tell you I know that Mr. Welles sent off a reply to him.

Yeah.

And that -- what it said, I don't know, but I know that he did handle it.

Well.....

And I -- I raised the question of -- myself, because a copy came into this office -- as to sending it over to you, and he said yes, send it over to you. But he did not suggest about making any notation as to your possible replying.

Well.....

And I think Mr. Welles' reply may have covered the situation, sir.

Well, could I have a copy of that?

Of Mr. Welles' reply?

Yes.

I'll -- I'll see, sir. I -- I don't know the situation very well.

Well.....

Would you like to speak with Mr. Welles, sir?

Yes.

Well, I'll see if he's over there, sir, and if he is I'll -- I'll.....

Have him call.

......have him call you, and if he isn't, I'll just call your secretary and tell you the situation.
HMJr: No -- well, you could call me because......
S: All right, sir.
HMJr: Let me know one way or the other.
S: Right, sir.
HMJr: Because I -- I don't like the tone of Kennedy's telegram.
S: No, I understand that, sir.
HMJr: And.....
S: I -- I'll get in touch with them and maybe the Secretary would like to speak with you. He's -- he's gone out to Woodley.
HMJr: Well.....
S: Department of
HMJr: Well.....
S: He hasn't gotten there yet.
HMJr: Ah -- I -- I'm here for fifteen minutes, and after that I can be reached at home after seven fifteen.
S: After seven fifteen?
HMJr: Yeah. .
S: All right, Mr. Secretary. Fine.
HMJr: Thank you.
S: Goodbye.
September 7, 1939
5:55 p.m.

Sumner Welles: Hello.

HMJr: Hello, Sumner.

W: Hello, Henry. They tell me you want to speak to me.

HMJr: Yes.

W: All right.

HMJr: Well, I asked for Mr. Hull and I asked about this telegram from Kennedy number 1500.

W: Oh, yes. Um-hm.

HMJr: And they said that you had answered Kennedy and so I asked.......

W: I told Kennedy that the President had instructed that the matter was to be regarded as -- as finished.

HMJr: Yes.

W: Now, I didn't say anything more than that. I couldn't possibly attempt, naturally, to answer his telegram except that.

HMJr: Well......

W: Because if he was complaining that we hadn't informed him, I wanted him to know that there wasn't anything for him to be informed of.

HMJr: I see. Of course, I consider it an impertinent telegram, and after all, I have no way of communicating with Kennedy. And Mr. Hackworth was here. For your information I asked Mr. Hull how I should handle it and he said to handle it at this end and not to handle it through Kennedy.

W: Um-hm.

HMJr: Or Bullitt. Now that's -- he said to do it at this end. That was Mr. Hull's.......

Regraded Unclassified
M: Yeah.
MJJr: \ldots own suggestion. So if,\ldots .
M: Well, I knew nothing about it until afterwards and\ldots .
MJJr: Well
M: \ldots all I'm trying to do is to compose the -- the question. I'm \ldots I'm awfully sorry but I couldn't possibly inform Kennedy myself because I didn't know anything about it.
MJJr: Well, let me ask you a question for future\ldots .
M: Yeah.
MJJr: \ldots guidance. Is it -- where a State Department representative sits here with me, which Mr. Hackworth did representing the Secretary of State, is it up to me to take any further action?
M: Well, I think your point is perfectly well made. I think if the State Department was fully informed of a thing of that kind, Kennedy should have been advised.
MJJr: Well, I mean -- but Mr. Hackworth was sitting here at -- as a representative of the Secretary of State.
M: Yeah.
MJJr: And I asked -- I mean -- and I -- it was taken up at Cabinet. At the Cabinet I said to Mr. Hull, "Now, should I -- how about my calling up Kennedy and Bullitt -- or what do you think"?
M: Yes.
MJJr: And he said, "No, I wouldn't do it that way." He said, "I'd do it by asking the Ambassadors here to see you."
M: Um-hm.
MJJr: And the appointment for the Ambassadors was made through his office.
M: Um-hm. I see.
Mr. Gray made the appointment.

I see.

And Mr. Hackworth sat here as Mr. Hull's representative.

Yes.

So......

Well, I think any failure to inform Kennedy was entirely the responsibility of this Department. I fully agree with you.

Well, would you do this for me?

What is that?

Would you write Kennedy a letter?

Yes, indeed.

And explain to him the circumstances?

I'll be very glad to do that, Henry.

I'm willing to take the blame when the blame is mine, but I don't think it is this time.

Well, I'll be very glad to do that. I'll write him a personal letter and explain it fully.

I -- I mean, you can tell him that Mr. Hull said I should do it this way, but I -- I think I would explain that Mr. Hackworth was sitting here......

I will.

......as Mr. Hull's representative.

I will. I'll make that clear and I'll send him a letter tonight. I don't know how soon a pouch can get off under present......

Well......

......conditions, but I'll see that he gets it.
HMJr: I -- I think that I'm entitled to that.

W: All right. I fully agree with you; I think you are.

HMJr: What?

W: I think you are. I fully agree with you.

HMJr: All right, sir.

W: All right, Henry.

HMJr: Then that's a closed issue.

W: Right, and I'm very sorry it happened.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.
My dear Mr. Secretary:

The present state of war in Europe has introduced a number of new factors in our industrial situation. We have always considered the Antitrust Division as a balance wheel against profiteering and as a protection to independent business in times of rapid consolidation. It should not be used in a vacuum but in coordination with other government departments.

Present conditions therefore compel a reexamination of our plans so that the personnel of the Division can be most effectively used under the new situation. The Attorney General has directed me to prepare a memorandum of general policy for our own guidance with this in mind.

In the preparation of that memorandum it is important that we do not conflict with any policy of your Department. I will appreciate it if you will appoint someone whom we can consult in the preparation of this memorandum of policy so as to avoid any such conflict.

In return for this cooperation may I call your attention to the fact that the expansion of the Division last year permitted investigation of industrial situations on a larger scale than has ever before been possible. We have a technical staff now familiar in great
detail with a very large number of key industries. This staff may be of assistance to other departments wherever questions of price policy, methods of distribution, the use of patents and other trade practices and labor restrictions are involved.

Sincerely,

THURMAN ARNOLD,
Assistant Attorney General.

The Honorable
The Secretary of Treasury
Washington, D. C.
GROUP MEETING  
September 7, 1939.  
9:30 a.m.

Present:  
Mr. Hanes  
Mr. Duffield  
Mr. Foley  
Mr. Haas  
Mr. Lochhead  
Mr. White  
Mr. Graves  
Mr. Bell  
Mr. Thompson  
Mr. Viner  
Mrs. Klotz

E.M.Jr.: I don't know how I'm going to work this with all the people here; I haven't crossed that bridge yet. Whether we will all meet at the same time on each day I don't know.

Duffield: You will have to put in a public address system.

E.M.Jr.: Do you have anything?

Hanes: Nothing at all.

Duffield: Some of the press services and photographic services are asking when Mr. Harris will be sworn in.

E.M.Jr.: At 4:30 today, and Mr. Koyle will be sworn in today.

Duffield: The only other thing I have is that the Country Home magazine has a policy of selecting America's "Farmer of the Month" with each issue, with each monthly issue.

(Viner enters)

E.M.Jr.: Ahoy!

Viner: I will salute that one.

E.M.Jr.: Incidentally, I hear the fast thinkers put it over on the quick thinkers, and you got the best rooms.

Viner: We were the fast thinkers.

E.M.Jr.: And the quick thinkers were slower than the fast thinkers.

Viner: I will admit quite modestly that I put it over on them.
And they say you admit it.

This magazine which is Crowell Publishing Company magazine, Country Home magazine, each month nominates America's "Farmer of the Month" in its issue and they want to nominate you. The only catch to it is that you have to write a little message to the farmers of the country of five or six hundred words. Do you want to be the "Farmer of the Month?"

That ought to be the "Farmer in the Dell."

And if you do, do you want me to write something? They offered to write something for your approval. I don't see why you don't do it unless you have some personal reason.

I think it's kind of silly, don't you?

I don't know what kind of a magazine it is.

Why don't you get a copy of the magazine?

There was one attached to this letter but it was lost.

It is a bad month to be picked as the "Farmer of the Month."

This might be a pretty good month to be the farmer, because the farm prices at this time have gone up.

Not when you are Secretary of the Treasury.

Just take a look at the publication. Have you read it?

Yes.

Ed?

I have these letters from the State Department and Commerce Department asking someone to serve on that advisory committee on credit to belligerents under that order exempting ordinary peace-time shipping.

Is that the one I signed?
Foley: Yes.

H.M. Jr: Peace-time credits?

Hanes: A committee was formed already dealing with the Treasury, and if it could be arranged to keep that same committee on this thing, it would be helpful. I think that is what the State Department wants also.

Foley: We don't know who they want to serve on this advisory committee and I thought the thing to do was for the Secretary to write -

Hanes: I don't understand what they did. They appointed a permanent sub-committee to deal with Treasury affairs. That was Townsend, Feis and Miller; I assume, from the Department of Commerce, although we had no Department of Commerce on it before, so whoever the Department of Commerce man is -

Foley: Well, I don't see any reason why Justice should be on this committee, particularly. I think that might complicate things and I think that the head of the department ought to be given an opportunity to designate the person he wants to serve on this particular committee.

Hanes: That is what I am telling you, the head of the department did want it. We don't want Justice, I believe, or Townsend, but just for your information I don't care.

H.M. Jr: You might talk this over with Hanes. He has been handling this and you can bring it up again. He is entirely familiar with it. He is on the committee himself, representing the Treasury.

Foley: That is right.

H.M. Jr: Talk it over with John and fix it up the way John would like to have it. It is something he did while I was gone. Anyway he wants it, it suits me. Is that all right?

Foley: Yes.

Hanes: I have nothing here but a little peace-time business.
H.M. Jr: How do you spell peace?

Haas: P-e-a-c-e. There is an interesting development there. Our corporate bonds flattened.

H.M. Jr: Which flattened?

Haas: Corporate bonds flattened out.

H.M. Jr: Do you mind - well, I sent yours in yesterday to Burgess.

Haas: Hadley told me to send a copy to him so he got a copy yesterday.

H.M. Jr: So Treasuries flattened and the Moodys didn't?

Haas: And the reason for Moodys not flattening is this, Mr. Secretary. On a bond that doesn't quote, they carry the previous quotations forward, so it is obvious they don't get the bottom of the market.

H.M. Jr: Well, Burgess is handling the bond market for me so you ought to -

Haas: I am sending it in. Hadley asked me to send a copy in.

H.M. Jr: Anything else?

Haas: I have this minor thing. Walker, each time FHA puts out a complicated schedule, writes to you. Do you want me to take this up with Fisher like we did the last time?

H.M. Jr: Yes.

Haas: All right, I will do that. That is all I have.

H.M. Jr: Have you got something?

Viner: No.

H.M. Jr: Have you got a place to live?

Viner: The town reminds me of 1917 a little. It is already filled.
A.M.Jr: (To Duffield) Do you want to give this clipping to the Tribune and kid them?

Lockhead: You already saw the Post that came over from the other side this morning. They just simply arrange what transactions they can and the small transactions between those rates is nearly all nominal.

A.M.Jr: Harry?

Smith: Whenever you have time I will give you some messages and things from Brazil. There are a few major problems that occurred to me, thinking them over, that we ought to take up, but they are not acute at this moment. I don't know whether you have already done something on them, so whenever you want to go into them - outside of that, I have nothing.

A.M.Jr: Harold?

Smith: I have nothing.

A.M.Jr: Will you stay a minute? I want to talk to you.

Bell: Did you talk to that fellow?

Bell: Yes. He is very highly complimented and would like to think it over during the day. I talked to some of his associates and he hopes to call us back this afternoon. He felt very appreciative. I have some information about some of the Federal Intermediate Credit Banks. They think they ought to do the job tomorrow.

A.M.Jr: Should I say anything at 10:30?

Bell: I will try and get you some dope before 10:30. He is talking it over with his associates and will let us know at 10:00 o'clock.

The market opened pretty good this morning, much better, and they are going to pick up between one and two millions. It looks as though there are several of the bids in.

Henes: What did it close?
Bell: It opened as it closed last night. There was no change.

Thompson: We have started on the space changes in the department. One of the problems is the question of furnishings. Mr. Bell was telling me about his discussion with you and I have a memorandum here to authorize use of the stabilization fund for furniture.

H.M. Jr: This is going to be the run-of-the-mine furniture?

Thompson: Yes, of course it will be that.

H.M. Jr: I thought you were going to have it gilt edged on the side.

Thompson: No, we will get very modest furniture.

Lochhead: I would like to donate that rug in my room.

H.M. Jr: That seems kind of high.

Thompson: Probably it is, but still there's quite a lot of rooms to take care of. I have obtained from Mr. Graves quite a number of desks and chairs.

H.M. Jr: I understand, for instance, if you want a desk and Procurement has a desk this size at contract price, you buy it at that price, is that right?

Thompson: Yes, that is right. If you want to get luxurious furniture you have to get special bids.

Bell: These are high-class people here.

Thompson: If you get a little better material, of course, it is lifetime furniture.

H.M. Jr: No, just the regular stuff.

Bell: There was some order issued in the last month or so virtually putting Farm Credit back where they were before the reorganization. It operates almost independently.

(Telephone conversation with the Secretary of Agriculture follows:)}
Henry Jr: Hello.
Operator: Secretary Wallace.
Henry Jr: Right.
O: Go ahead.
Henry Jr: Hello.
Henry Wallace: Yes, Henry.
Henry Jr: How are you?
W: Fine, sir.
Henry Jr: Henry, we have been working here in the Treasury with the Farm Credit people as usual, as we have heretofore, on their financing.
W: Um-hm.
Henry Jr: And intermediate credit will, in the next day or so, have a 20 million dollar refunding and they may have to go to the market for 10 million dollars new money, and I wondered if it was agreeable to you that we handle it, the announcement and everything else, the way we always do from this office.
W: Why of course, Henry.
Henry Jr: I mean, the way we always have.
W: Yes, I don't see any reason why not.
Henry Jr: Well, I -- I didn't want to do it with......
W: Do you know of any reason why not?
Henry Jr: No, they'd like us to do it but, after all, it's in your shop now and I didn't want to do it without asking you.
W: Well, that aspect of it is more in your shop than it is in ours in a way, isn't it?
Well, we have always advised them with their financing and helped them and it's -- particularly now, we don't want any agency to go in until we can find a good spot for them. Now, we've got a good time for intermediate credit and they'll do it mostly likely tomorrow or the next day.

W: Yeah.

HNJr: But just -- I -- I -- you remember I called you up on commodity credit before we handled it and you said, "Go ahead."

W: Yeah.

HNJr: Well, this is the first time we're doing one for Farm Credit and I just wanted to clear it with you.

W: Yes. Well, that's fine, Henry.

HNJr: Is that all right?

W: That's fine. How are things?

HNJr: Ah -- under the circumstances, I think everything is fine.

W: I think so too.

HNJr: What?

W: Yeah. The -- things have got to shake down a bit during the next week or two. There's a little bit of a hysteria abroad the land.

HNJr: Oh, yes.

W: But.....

HNJr: But I'm trying to -- I had to strengthen my Treasury greatly on personnel and we're ready now.

W: You say you have strengthened your Treasury greatly.

HNJr: Yes. Oh, yes, I've taken on -- we've taken on a lot of people that I arranged for last April.

W: Uh-huh.
HMJr: To come down and we've -- they're here now working.
W: Yeah.
HMJr: And.....
W: Well all right, fine.
HMJr: Thank you. Goodbye.
Bell: There was some order issued by the Secretary of Agriculture with the approval of the President putting the Farm Credit almost back on an independent status.

H.M.Jr: I didn't want to come out and say we are going to do this, but I want to make a little speech to the press explaining that from now on there is a coordination of financing and the Government will go in on a coordinated basis, and I want to use this as an example so that they will know we are going to take our time.

Bell: This is going ahead with this routine job in the regular way.

H.M.Jr: Yes, that it is all coordinated through the Treasury and the Government will not ask the money from its agencies or any direct obligation without the thing being cleared through.

Bell: This is merely a clearance. We don't actually do the job like we do the others.

H.M.Jr: But I can say what I am saying.

Bell: That is right, yes sir.

H.M.Jr: Do you think Governor Hill wanted something like this said?

Bell: He would be very pleased if you would say this, but he hasn't got the approval of the Board yet.

Hanes: Would you like to take a couple of minutes to clear up this Florida situation? Norman Thompson has been having an awful time with the White House and they are on his neck and I took the responsibility of telling him not to send it over there until you came back. Yesterday Mrs. Pepper called me up, the Senator being in the hospital, and Mrs. Pepper gave me the works about a half hour over the telephone about what a distress that was. I told her we had been awfully busy here and had something else to do and I thought it best not to concern her with the details of it. So they are putting all kinds of pressure on us and I think the history
is that we told Mac not to let this fellow go until they got another job for him. Well, they got another job for him but they put a 'joker' in it by saying it was a temporary appointment for 60 days. I don't think that is fair to the fellow so it didn't go through. I guess -

Thompson: General Watson has requested that the Commission be sent over.

H.W. Jr: I tell you what you do. You tell the Chief Clerk that my understanding is that this fellow is to have a full-time job at the same salary and when we are convinced that he has that we will send him over, but until that I am going to sit on it, barring written instructions from the President. Barring written instructions from the President, we will not send over this fellow until he has got a job at the same salary. You notice I am not saying he has to be in Florida.

Hanra: This was a 60-day appointment, wasn't it?

Thompson: Yes, they said 60 days.

E.W. Jr: Is that all right?

Hanra: That is fine, yes.

E.W. Jr: O.K.
Conversation with Mr. Harrison in New York City.

September 7, 1939
8:37 a.m.

HKJr: Hello.
Operator: Harrison.
HKJr: Hello.
George
Harrison: Hello. Henry?
HKJr: Good morning, George.
H: Good morning.
HKJr: How are you?
H: I'm first rate, thank you, and I hope you are.
HKJr: Oh, I'm -- I'm feeling mentally fine.
H: (Laughs)
HKJr: Physically, a little pooped. Ah -- are you feeling
a little better since you talked to me Monday night?
H: Well, I feel a little better and I'm very much
obliged to you for some, I'm sure, active support
that you gave in the way to handle this thing.
HKJr: Plenty.
H: And the -- they've been very much more liberal in
their leeway.
HKJr: Oh, yes.
H: Now, we're debating just how we shall handle it this
morning.
HKJr: Yeah.
H: Last night there began to be a little evidence of
some buying even in the longer stuff.
HKJr: Yeah.
H: Not much, but there was one case where our bid was
topped on the Stock Exchange Board, which is an
encouraging sign.
HMJr: Wonderful!
H: It was just one swallow, however.
HMJr: Yeah.
H: And.....
HMJr: The fellow -- the fellow didn't choke, did he?
H: What?
HMJr: He didn't choke, did he?
H: (Laughs) No, he lost a little, because it went right down to our bid afterwards.
HMJr: I see.
H: Now, the question is, whether, and at what point, we should make some sort of a stand. We still think that the long bonds are a little bit over what's going on outside.
HMJr: Yeah.
H: Marriner agrees with that and his suggestion is that we open up this morning on the long bonds a full half point off, just to vary the pattern as he expresses it. My point -- we feel that we'd do better to open up where we were last night as long as we've found a point there where there seemed to be some buying.
HMJr: Yeah.
H: And that to open up a full half point off this morning might be a discouragement. In other words, in the early days, I was for opening up a whole point off....
HMJr: Yeah.
H: .......and they made me stick to -- to an eighth then.
HMJr: Well, the
H: And now when we're getting near the bottom they're for the -- for the big action rather than the little action.
Well, the meeting we had in my office that Tuesday morning where they were having you hold the line at one eight.  

Yeah.  

Then....  

......traveled along just.....  

And -- and in the early days we should have gone down faster and in bigger jumps, and I don't think now that we've got it where we have got it that it would be wise to open up and full half point off and then make our stand there is what Harriner says.  

Well, George, I'm going to refrain from making any comment.  

Yeah.  

Because Randolph Burgess is handling it for me.  

Uh-huh.  

He's on his way over to see Eccles now.  

Uh-huh.  

And I don't want to get my wires crossed.  

No. Well, I think you're very wise on that.  

I mean.....  

I spoke to Ranny a little while ago and I don't think we are far apart.  

Now, the other -- the thing that I wanted to tell you was this: That Jerome Frank was over here yesterday to see me; to tell me about his correspondence with you......  

Yeah.  

......about the committee. And I've gotten my notes out as to that meeting on April 13th and in that
meeting you stated perfectly clearly what you were going to do.

H: Yes.

HJr: And I'm going to tell that to Frank today, you see?

H: I don't......

HJr: I'm......

H: Henry, he -- he's been more nuisance about a little bit of a thing. I don't know what his feelings are hurt about......

HJr: Well......

H: ..........or what he's objecting to.

HJr: Well -- now, what I'm suggesting is as soon as the heat is off, and I told this, that you come down and Frank and you and Johnny Hanes and I will have lunch together.

H: All right.

HJr: And I'll show him -- there's just a half a page where you outlined in the greatest detail what......

H: Well, was he present at the meeting?

HJr: Pardon?

H: Was he present at the meeting?

HJr: He was not.

H: Oh.

HJr: No, the people present were Hanes, White, Lochhead, Bernstein, Foley, Eccles, Harrison, Knoke and myself.

H: Yeah.

HJr: It was on April 13th at four p.m. He was not present at that meeting.

H: Well, I wrote him a letter yesterday and told him that -- confirming what I told him on the telephone -- that we had no intention to trespass on his
jurisdiction; we've got plenty to do of our own without doing that.

H(Jr): Well, I think it would be good all around that sometime next week when the things are straightened out, come on down and the four of us will have lunch together.

H: Yeah. Tell him for me that I'm glad he has so little to do that he can fuss about a thing like this.

H(Jr): Well......

H: (laughs)

H(Jr): ......every -- well, everybody's -- how shall I say, a little bit different.

H: (laughs) Well, we've -- I'd love to come down anytime at all.

H(Jr): Well, I -- I think it would be good.

H: All right.

H(Jr): Because this thing -- I know the man, I think I'm right; it'll keep revolving in his crop until we get it straightened out, and Johnny is nodding his head. He's sitting here, nobody else in the room but Johnny and Johnny agrees.

H: Yeah.

H(Jr): And so I think -- I think it would be worth your while to come down.

H: All right.

H(Jr): See?

H: In the meantime, if he's got any suggestions -- if he wants me to fire them out/the committee, that suits me.

H(Jr): Well, I -- I'm not making any -- but I just like to act -- I just like to furnish the food, that's all.

H: Yes. All right.
HMJr: And I will show him the minutes.
H: I -- I accept your invitation to lunch.
HMJr: Pardon?
H: I accept your invitation to lunch.
HMJr: Righto.
H: First rate.
HMJr: Goodbye.
H: All right. Goodbye.
My dear Jerry:

For your own confidential information, I wish to quote below George Harrison's comments at the April 13th meeting, in my office, in regard to forming a bankers' committee:

"Before the Munich crisis we made a complete survey in the New York banks of the 1914 versus the 1938 situation.

The one thing we felt we needed definitely in New York, in the light of past experience, was to have a bankers' committee to which I might go in any hurry upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do. The banking community agreed definitely that I should have such a committee - call it advisory committee or a market committee or a contact committee. There was some difference of opinion as to how it should be organized, but nevertheless the principle was agreed to. We dropped it merely because of the Munich appeasement, as it was called, I understand.

At that time I discussed with the principal banks in New York the whole question of the bond market for one thing, the foreign exchanges, and the question of foreign balances. I think there is no question that they would be all definitely willing and glad to do anything that they legally can within their rights. And if I set up such committees, as I had planned yesterday to do today if I had been in New York, all I would have to do would be to put up any question I want to to the committee and let them do the dirty work. That's the way I'd rather do than call them up, as you say, at 2:00 o'clock in the morning."
Also present at this meeting were:

Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Bernstein
Mr. Foley
Mr. Eccles
Mr. Knake

Sincerely yours,

Hon. Jerome Frank, Chairman
Securities and Exchange Commission,
Washington, D. C.
September 7, 1939

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Also present at this meeting were:

Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Bernstein
Mr. Foley
Mr. Eccles
Mr. Knocke

Sincerely yours,

Hon. Jerome Frank, Chairman
Securities and Exchange Commission,
Washington, D. C.
THE WHITE HOUSE
Washington

September 5, 1939

CONFIDENTIAL

MEMORANDUM FOR

HON. JEROME N. FRANK

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 double cross or something similar.

F. D. R.
August 31, 1939

CONFIDENTIAL MEMORANDUM

TO:    THE PRESIDENT
FROM:  Jerome N. Frank

I am somewhat disturbed by recent developments which may seriously affect the adequate handling by the SEC of the matters entrusted to its care, and feel that I ought to call the subject to your attention;

1. You recently appointed an inter-departmental committee, to deal with the war emergency situation, consisting of representatives of the Departments of State, War, Navy, Treasury and Justice.

2. A subcommittee has been appointed with reference to security markets, foreign exchanges, etc., which consists of representatives of Treasury, State, Federal Reserve, Justice and the SEC. At a recent meeting of that subcommittee (the only meeting thus far held) the Federal Reserve was represented by Dr. Perry (whose attitude toward Stock Exchange matters has frequently been at variance with ours) and the State Department was represented by Dr. Feis, (who has sometimes been severely critical of our relation to the securities
markets). At that meeting Dr. Parry disclosed that he had, unbeknownst to the SEC, discussed with Stock Exchange officials steps which the Exchange contemplated taking and of which the SEC had not then been informed.

3. The curious and subordinate position of the SEC, as to matters within its peculiar province, in connection with the workings of the inter-departmental committee, may lead to strange results, as indicated by the following:

Several days ago, Governor George Harrison, of the Federal Reserve Bank of New York, appointed a committee to advise and consult with government officials on foreign exchange matters, a subject which is no direct concern of the SEC. However, yesterday, with no knowledge on the part of the SEC until we read of it in the press today, Governor Harrison appointed another (nine men) committee to advise and consult on other problems, including conditions in the securities market. That second committee consists of Henry Morgan of Morgan Stanley and Company, representing the investment bankers, Mr. Martin, President of the New York Stock Exchange, and the presidents of the leading New York banks; it is also to include a representative of the insurance companies. The press accounts state that the committee “will forward its findings and opinions to Washington” and that “it had not been decided whether to
make the committee permanent if future developments give assurance of peaceful settlement of Europe's problems."

The appointment of that committee had not been discussed with us. It had been informally and briefly discussed with Under-Secretary Hanes, who knew little about its purposes. I have no criticism whatever of Johnnie; I have no doubt that the failure to advise with us was, at most, a pure oversight.

I talked to Johnnie about the matter today. At his suggestion, Governor Harrison phoned me this afternoon. He explained that his new committee was formed merely to give him advice so that he could keep the banks informed of developments, and said that it was not intended that that committee should encroach in any way on our activities.

However, regardless of Governor Harrison's intentions, it is well known that several members of that committee ardently desire to procure amendments to the SEC statutes which would emasculate them; and the existence of such a committee may afford an opportunity for certain persons in Wall Street to take advantage of the emergency, in an effort to establish a program of encroachment of the SEC.

4. In the light of the foregoing, I respectfully suggest that the main inter-departmental Committee and the inter-departmental subcommittee and the War Resources Committee be
instructed that, with respect to matters within the province of the SEC, no steps should be taken, or plans drafted, or tentative or other commitments or public statements made, without the prior concurrence of our Commission.

5. Leon Henderson and Ed Higher have read this memo and fully approve.

6. I think the subject is of such great importance that I would appreciate an opportunity to talk with you about it for a few minutes in the near future.

includes the stock exchanges, over-the-counter markets, investment banking, capital markets (other than the government bond market), securities transactions, public utilities, investment trusts, and investigation of insurance companies.
CONFIDENTIAL MEMORANDUM

September 2, 1939

TO: The President
FROM: Jerome H. Frank

Responsive to comments by Bill Douglas and to later comments by me, Mr. Martin, President of the New York Stock Exchange, on July 14, 1939, appointed a so-called "examining board" to study and report on the matter of increased customer protection against brokerage insolvencies. The board published its report on August 31.

Mr. Martin, on September 2, made public a letter addressed to the members of the Exchange sending them copies of that report. Attached is a clipping from the New York Herald Tribune for today which quotes his letter. In that letter he said that one of the most urgent problems confronting the Exchange was "the preservation of the market itself. The impact of regulation has already seriously impaired the vitality of the market." He referred to "the low volume of transactions and reduced listings" and commented that "the policing power . . . should never be so much to the forefront that it suppresses
legitimate activity."

In that same letter, he said that, in meeting the broad problems, "we earnestly invite the cooperation of our listed companies, the banks of the country, business generally, and all others who wish to see the nation's primary securities market sustained at maximum efficiency, with its vital functions unimpaired."

The tone of Mr. Martin's letter was a surprise to many persons, including prominent persons associated with the Exchange who are friendly to us, including Mr. Curle Conway. They interpreted Martin's letter as a result of prodding from the old guard who think that the present political situation makes this a good time to begin another attack on the SEC statutes.

I call your attention to the language which I have underscored, taken from Martin's letter of September 2, because it would seem to tie in with the creation, on August 30, of the committee by Governor Harrison, to which I directed your attention in my memo of August 31. Mr. Martin and Mr. Harry Morgan, you will recall, are members of that committee; since my earlier memorandum was written, Mr. Potter, President of the Guaranty Trust Company, has been made Chairman of that committee and Mr. Baker, Chair-
man of the Board of the Metropolitan Life Insurance Company (now on hearing before the TNC), has been made the insurance company representative. There would seem to be some reason to believe that when Mr. Martin appealed to leading corporations and the banks of the country to assist him in resisting regulation which "has already seriously impaired the vitality of the market," he had in mind Harrison's committee, the composition of which fits Mr. Martin's requirements.

"We do not intend, for the present, to make any reply to Martin's letter."

JIPrank:OND
Governor Harrison has appointed two committees. The general impression is that he did so at the request of or with the approval of the Treasury.

One of these committees has to do with foreign exchange. The other is a so-called "General Committee."

That committee, according to the press, was appointed on August 30. The first that SEC knew of it was when the announcement of that appointment appeared in the morning papers on August 31. The committee consists of nine persons, the Chairman, Mr. Potter of the Guaranty Trust Company, the presidents of four other banks, Henry Morgan of Morgan Stanley and Company (to represent the investment banking group), Mr. Martin, President of the Stock Exchange (to represent members of that institution) and Mr. Ecker, Chairman of the Board of the Metropolitan Life Insurance Company (to represent the life insurance companies). There is some indication that each group has appointed a subcommittee.

According to the press, the General Committee is to include within its activities matters affecting securities markets. That committee, according to the press, is "to forward findings and opinions to Washington."

Subsequent stories indicate that it is thus to act not only at the request of Washington or the Federal Reserve
Bank but also "on its own initiative." It was stated in the press that it had not as yet been decided whether to make the committee permanent so that it would continue even if the present emergency should cease to exist. It was stated in the press that the committee "might, for instance, if it were deemed necessary, or Washington wanted it, take up the British order prohibiting Britains to sell or transfer American and other foreign securities without permission."

On August 31, Governor Harrison advised me on the phone that the press had been in error when it stated that that committee was to make findings and proposals to the government with respect to the security markets, and that it was not intended that either that committee or the foreign exchange committee should consider or make proposals or findings which relate to subjects within the jurisdiction of the SEC, but that they would be merely a means by which, during the emergency, Governor Harrison could promptly obtain information as to current market conditions and promptly transmit such information to the financial community.

On September 1, I wrote a letter to Governor Harrison confirming the foregoing as my understanding of what he had told me on the telephone on August 31.
On September 4 it was stated in the New York Times that the committee "will have the duty of considering and giving advice upon measures recommended or suggested by Washington or the Reserve Bank here and may initiate recommendations or make requests of its own."

In the New York World Telegram, for September 5, it was stated that the committee had met and that "it will interest itself in such matters as . . . foreign holdings of securities and trading on the various exchanges."

On September 5, I received a letter from Governor Harrison stating that I was correct in assuming that the Committee did not intend in any way to trespass on the jurisdiction of our Commission. He states that the reason for the organization of the committee was to have available a group through which the Federal Reserve Bank of New York, "as fiscal agent of the government and otherwise," may obtain information or "cooperative consideration" in relation to matters affecting "this market" as they may arise. He assures the Commission that in whatever connection the committee may be called upon, it will operate so that there will be no suggestion of any conflict "with the jurisdiction or functions" of the SEC.
He states that while the SEC was not "directly"
informed of the plan to organize the committee in ad-
vance, nevertheless, he had assumed that I was aware
of the general plan to form such a committee (1) be-
cause of "advance references to it in the press," and
(2) because it was discussed in some detail at the
series of meetings held in Secretary Morgenthau's office
last April when the various departments of government,
including SEC and the Federal Reserve System, outlined
actions to be taken in the event of war.

As to those explanations: (1) I know of no reference
in the press to the appointment of that committee be-
fore it was organized. The first SEC knew of it was an
announcement in the press the day after it had been
organized. (2) Neither I nor Mr. Purcell of the SEC
(who was present with me at the meetings in April) have
any recollection of any suggestion made in April that
any such committee should be appointed.

Mr. Harrison's letter closes with the following
statement: "I assume, of course, that you would have
no objection to receiving suggestions or proposals from
this group, as you would from any other group, regard-
ing matters within the jurisdiction of the Commission,
in the event that any such suggestions seemed wise or
appropriate." Of course, the SEC will be glad to receive suggestions or proposals from anybody. But, if critical comments or suggestions of an unwise character come from a committee which has been appointed with the apparent approval of another department of government, publicity given thereto will inevitably embarrass the SEC.

Jerome N. Frank

P.S. Since dictating the foregoing I have observed that in the New York Times for today there is a statement that yesterday the "general committee" held a meeting "under the Chairmanship of William C. Potter at the New York Federal Reserve Bank. It heard reports but took no action, as the situation appeared to be completely under control." That would make it appear that the "general committee" is acting as part of the mechanism of the Federal Reserve Bank of New York and that it is prepared "to take action" if the situation requires.

J.N.F.
September 1, 1959

Personal

Governor George Harrison,
New York Federal Reserve Bank,
New York, New York.

Dear Governor Harrison:

At the suggestion of the Commission, this letter is written to confirm my understanding of our telephone conversation of yesterday as reported by me to the Commission: You explained that the so-called "general committee" appointed by you (of which this Commission knew nothing except what it learned from newspaper accounts yesterday) had been erroneously pictured in the press as one which would make findings and proposals to the government with respect to "the security market." You said it was not intended that either that committee or the foreign exchange committee, previously appointed by you, should, nor will they, consider, or make proposals or findings which relate to, subjects which are within the jurisdiction of this Commission, but will merely be a means by which, during the emergency, you can promptly obtain information as to current market conditions and promptly transmit such information to the financial community. We assume that any sub-committees are to have similarly limited functions.

Sincerely yours,

JNF:LSW

Jerome H. Frank
Chairman
Hon. Jerome N. Frank, Chairman,
Securities and Exchange Commission
Washington, D. C.

Dear Chairman Frank:

I have received your personal letter of September 1 referring to our conversation on the telephone on August 31 concerning the committee recently set up at my suggestion by the various groups included in its membership.

You are quite right in assuming that this committee does not intend in any way to trespass upon the jurisdiction of the Securities and Exchange Commission. As I advised you on the telephone, the reason for the organization of the committee is to have available a group, representative of the principal financial interests in this market, through which this bank in its capacity as fiscal agent of the Government or otherwise may promptly obtain information or cooperative consideration in relation to important problems affecting this market as they may arise. Experience has demonstrated the extreme difficulty of doing this without such a representative committee of limited size.
While your Commission was not directly informed of the plan to organize this committee in advance, nevertheless, I had assumed that you were aware of the general plan to form such a committee because of advance references to it in the press and because it was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war.

I can assure you and your colleagues that there was no thought that the organization of this committee would in any way conflict with the jurisdiction or functions of the Securities and Exchange Commission, and I am sure that in whatever connection the committee may be called upon it will operate so that there will be no suggestion of any such conflict. I assume, of course, that you would have no objection to receiving suggestions or proposals from this group, as you would from any other group, regarding matters within the jurisdiction of the Commission, in the event that any such suggestions seemed wise or appropriate.

Faithfully yours,

/s/ George L. Harrison
George L. Harrison,
President.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 7, 1939.

TO
Secretary Morgenthau

FROM
Mr. Gason

Mrs. Klotz asked me this afternoon to report to you on your return from the Cabinet whether the Coast Guard had any system of compiling information on ship movements. No such information has been compiled except on special occasions for special purposes. However, pursuant to his conversation with you yesterday and with me after he had talked to you, Admiral Waesche has done the following: He has drafted radio messages to be sent to all light ships near important harbor entrances to observe and report to headquarters all ship movements visible from the light ships. He has also given instructions to New York to set up in the District Commander's Office a special Office of Ship Movements, which is to compile a complete record of all ship movements into, out of, and within the harbor. With the experience gained at New York he plans to set up similar offices in all principal ports. Vital information respecting ship movements will be sent to headquarters.
September 7, 1939.

Admiral Richard Evelyn Byrd,
9 Brimmer Street,
Boston, Massachusetts.

My dear Admiral Byrd:

On behalf of Secretary Morgenthau I am writing to express our appreciation of the generous attitude you have taken with respect to the retention of the Coast Guard Cutter NORTHLAND for use in your Antarctic Expedition to start next month.

Mr. Buhl Cummings, Jr., of the State Department, reported to me his telephone conversation with you after I had asked him to find out whether the expedition could go ahead without the use of the NORTHLAND. He reported that you told him that while you would regret greatly losing the services of the Coast Guard ship, yet you were quite willing to yield to the President's judgment as to the need of the ship for other purposes and that you could revise your plans so as to get along with the two remaining ships.

The matter at this moment has not been finally decided, but I thought I should write you in any event to tell you how grateful we are for your self-sacrificing attitude with respect to plans that mean so much to you and promise to yield so much of good to the nation.

As you undoubtedly know, two of our large cutters have been pressed into the North Atlantic petrol service and we are recalling three others from the Pacific Coast for use in eastern seaboard waters. The NORTHLAND would be extremely valuable to us in the Pacific as soon as she could get around there.

Yours very truly,

Herbert E. Gaston
Assistant Secretary.
September 7, 1939.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

SUBJECT: Antarctic expedition.

The Byrd antarctic expedition, to sail late in October, planned to utilize three vessels, the Coast Guard Cutter NORTHLAND, built for antarctic service, the Department of Interior ship NORTH STAR and the former Coast Guard Cutter BEAR, now known as the BEAR OF OAKLAND.

The NORTH STAR is a wooden vessel, with little room for personnel but large cargo space; the NORTHLAND has good accommodations for personnel but little cargo space; the BEAR OF OAKLAND is a smaller vessel and quite old but it is understood that a Navy Board recently passed upon her and found her seaworthy.

The expedition's plan was to establish two bases, one at Graham Land, a part of the antarctic continent immediately south of South America, and the other at Little America, which, I believe, is in the Australian sector. The plan was for two expeditions to set out toward each other to draw a line between these bases cutting off a sector as American territory. Plans for the expedition have been largely in the hands of Richard Black, a member of the former Byrd expeditions, who is in the Interior Department under Dr. Gruening's Division of Territories and Island Possessions, and Hugh Cumming, Jr., of the State Department, son of the former Surgeon General. Commander Rose, Chief of Operations in the Coast Guard, has worked on the Coast Guard end of it. It is Commander Rose's opinion that elimination of one of the two bases would defeat the principal objective of the expedition, which was to delimit this sector of territory.

Mr. Cumming tells me that since hearing yesterday of the possibility that the NORTHLAND might be withdrawn they had been considering readaptation of their plans. He thinks it highly important that the expedition should go forward even though they do not have the services of the NORTHLAND.
Mr. Cumming called his associates in Washington and also called Admiral Byrd over the long distance telephone in Boston. Admiral Byrd said he hated to give up the NORTHLAND but in view of the National necessity he would do so cheerfully. He said the expedition could go forward and attain satisfactory results with the remaining two vessels. He would still go ahead with the plan of establishing two bases but with somewhat restricted personnel and equipment, notably they would have to reduce the number of planes. The two bases, however, would still be provisioned for two years. As to the President's suggestion for eliminating one base, he said they could still accomplish some worthwhile results with a single base, but he didn't think that would be necessary.
TO Secretary Morgenthau

FROM W. H. Hadley

**TREASURY PURCHASES**

Only one issue, the H.O.L.C. 1-1/2s, showed a gain on yesterday’s average purchase price at the close today. The four longest Treasury bonds closed about unchanged from yesterday’s close, and so were about a half point under the average purchase price of yesterday. Yesterday’s purchases were made on a declining price range of one point so that the average purchase price is in the neighborhood of 1/2 point above today’s and yesterday’s closes.

The following table shows the high, low and average purchase price for yesterday of the issues which the Treasury and the H.O.L.C. took.

**Treasury Purchases Sept. 5 (19,412,375)**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Amount</th>
<th>High</th>
<th>Low</th>
<th>Average</th>
<th>Today’s Close</th>
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<tbody>
<tr>
<td>1955-59’s</td>
<td>7,016,000</td>
<td>104.16</td>
<td>103.16</td>
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<tr>
<td>1956-69’s</td>
<td>1,611,000</td>
<td>103.8</td>
<td>102.8</td>
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<tr>
<td>1960-63’s</td>
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<tr>
<td>1960-65’s</td>
<td>5,877,000</td>
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<td>101.27</td>
<td>102.19</td>
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<tr>
<td>HCLC 1-1/2’s</td>
<td>2,618,375</td>
<td>98.20</td>
<td>98.4</td>
<td>98.12</td>
<td>98.24*</td>
</tr>
</tbody>
</table>

*Gain of 12/32nds for a dollar increase of $9800 over the purchase price.
September 8, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

After consulting with Mr. Hanes I approved today as Acting Secretary a letter to the Budget by Admiral Woessche requesting permission to incur a deficiency on a group of Coast Guard appropriations made necessary by the recruitment of a thousand additional men and the other expenses we are assuming because of the transfer of ships, increase of equipment, etc. During the day I learned that the President had signed Executive Orders authorizing Army and Navy to exceed their appropriations. I discussed the matter with Ed Foley and he thought it would be helpful if we got a similar Executive Order for the Coast Guard that you could ask the President to sign on Monday. He is preparing such an order.
I called Mr. Bolton at 10:25 a.m. I reminded him of my previous request that he send us copies of all decrees, regulations, etc., issued, if possible by Clipper, and explained the difficulties this market was up against in the absence of any authentic information. Bolton replied that copies of everything so far printed had been sent to us; if it had gone out by boat he would see to it that additional copies were sent by airmail.

I referred to the regulation supposedly just issued in London dealing with the financing in sterling of the movement of goods between other than British Empire points. The regulation was FE7, Bolton replied, and was giving the accepting houses various instructions regarding the opening of credits. Any documentary credit which covered the movement of goods in or out of the country or between any points of the British Empire could be maintained. The only credits which were under supervision were credits covering, for instance, shipments between Amsterdam and New York, that is, between two foreign ports. He would have the document cabled to us verbatim, he promised.
PARAPHRASE OF SECTION ONE OF TELEGRAM NO. 1851, SEPTEMBER 8, 5 p.m., FROM THE AMERICAN EMBASSY, PARIS, FRANCE.

Mr. Pierson, the President of the Export-Import Bank, visited Mr. Fain, Secretary General of the French Government Export Credit Insurance System; that institution corresponds somewhat to the Export-Import Bank. The Secretary General said that Reynaud is anxious for him (Fain) to expand operations as much as possible, in view of his need for all possible foreign exchange. Fain added that his institution would urge all exporters to endeavor to increase their exports to Latin America and also, for the present, to Scandinavian nations. But his personal belief was that the Scandinavian countries would be involved in the war on France's side before very long. The French Government Export Credit Insurance System grew up primarily because of opposition to outright loans to foreign governments and public entities, and it accomplished the same purpose without opposition from the public. However, Fain feels that the French Treasury will be holding the same bag in the end.

BULLITT

EA:MSG
Secretary of State
Washington.

1851, September 8, 5 p.m. (SECTION TWO).

The foreign exchange market was a little broader today in trading between banks limited however to commercial needs. Sellers of foreign currency, however, are still rare and the control continues to give no exchange except for carefully investigated merchandise imports. This policy is apparently beginning to arouse a little anxiety in other continental centers, such as Switzerland. The Bank of France quoted a buying rate of 176.50 this afternoon for sterling and 43.75 for dollars. The belga was 747½ and the florin 2320 and the Swiss franc 982. Securities quotations were again largely nominal but some rentes issues and French utility and industrial stocks improved over yesterday's close. Foreign securities such as Royal Dutch and Rio Tinto continued to gain. (END OF MESSAGE).
September 8, 1939

To: The Secretary
From: Mr. Hanes

Drew Pearson called me on the telephone this afternoon about four o'clock and read a statement which he said had been written by his partner, Bob Allen, about as follows: "One day just before sailing from Bergen, the Secretary of the Treasury, Henry Morgenthau, Jr., sent a cablegram to John Hanes, Under Secretary of the Treasury, asking Hanes what the public opinion was concerning his using a Government Coast Guard cutter for his return trip home."

Drew said that he hated to see this item published unless it were true and would I care to discuss it with him. I told him that I certainly would like to discuss it with him — that the statement was grossly false and without foundation of fact whatsoever, that no such cablegram had ever been sent, and that if he printed it I felt that it would be the grossest injustice that he could possibly do to the Secretary. I stated further that the Secretary was solicitous about leaving Bergen if other Americans there were stranded and in accordance with this wish not to leave when others were in distress, the Secretary had gone to the American Consul to ascertain whether there was anyone within his knowledge who could not obtain passage. The Secretary was assured that there were adequate accommodations for everyone from Norway to America. I told him further that the steamship, Bergensenfjord, had just arrived in New York today with available space for from 50 to 100 more passengers.

Although Drew did not tell me he would not print it, I would assume after this statement that he will not. This is for your information only.

[Signature]
CONFIDENTIAL

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

Dear Henry:

I enclose a draft of a proposed letter from me to Governor Harrison which has been approved by the Commission. As I told you on the phone yesterday, I wanted you to see it before it was sent.

What particularly bothers us about Harrison's letter to me of September 5 (a copy of which is attached) is the last paragraph. As you will note from the attached draft of proposed letter to him, it is, of course, our position that any citizens have a right to say anything they want to the SEC or to anyone else about matters under our jurisdiction and, ordinarily, to publish such comments. But we do not think that that general rule is applicable to Harrison's committees. The discussion in your office on April 13, and Harrison's letter of September 5, and press accounts concerning the activities of the committees, all show that they are acting, at least indirectly, as advisers to the Treasury, and perhaps to the Federal Reserve Board, and were appointed with the approval of the Treasury and the Federal Reserve Board.

Those committees, therefore, occupy a quasi-governmental status, and, accordingly, public comments by them, as to matters within our jurisdiction, would be given a significance and weight which they would not otherwise have. Suppose, for instance, that Jack Viner or Earl Baillie, while occupying their present posts, were to publish some comments about the SEC. As I point out in the attached draft of letter, if the Treasury or the Federal Reserve ever had any suggestions or comments about matters within our jurisdiction, they would make them to us in confidence and would not think of publishing them. It
seems to us that Harrison's committees, being advisory to, and having been appointed with the approval of, the Treasury and the Federal Reserve should act in like manner.

That point becomes the more pertinent in the light of an item appearing in this morning's Wall Street Journal to the effect that "the Foreign Exchange Committee announced that it is recommended to the market, because of delays in cable transmission, that on and after September 11, sterling be dealt in this market on the basis of payment here and in Great Britain on the second New York business day after the trade is made." In other words, the Foreign Exchange Committee is making public announcements on foreign exchange matters. Public announcements concerning such matters are no business of the SEC; and it may well be that the Treasury wants the Foreign Exchange Committee to make such announcements. The point is that either that committee, or, more particularly, the so-called general committee appointed by Harrison, may make public comments or suggestions on subjects which are within our jurisdiction and publicly announce those comments. Having in mind that the so-called general committee is composed of persons, several of whom have already publicly urged substantial modifications of the SEC statutes and regulations, we are fearful that, unless Mr. Harrison promptly advises the committees that they are not to publish any views on matters within our jurisdiction, we may, in the next few days, find adverse comments on the SEC publicly made by a committee which is known to have the blessing and to be a sort of an adjunct of the Treasury.

As indicated in my attached draft of letter to Harrison, in appointing the general committee, he went considerably beyond the scope of action indicated in his discussion in the conference on April 13; for there he referred to "a bankers' committee," whereas the "general committee" consists not only of five bankers but of a representative of investment bankers, the President of the New York Stock Exchange, and Mr. Ecker as representative of the insurance companies.

In passing it should be noted that Mr. Ecker's company is now under examination by the so-called Monopoly Committee; it would certainly be most unfortunate if Mr. Harrison's general committee, appearing to have the blessing of the
Treasury Department, were to sound off publicly with adverse comments concerning that investigation of insurance companies, an investigation which the President expressly urged in his message to Congress which led to the creation of the Monopoly Committee and in which he has several times, since then, in private, expressed peculiar interest.

For the foregoing reasons, I think it most important for me to answer Mr. Harrison's letter promptly instead of waiting until you and he and I can have a conference sometime next week; for in the interval one or the other of his committees might give out some damaging publicity.

I would be obliged, therefore, to receive your comments on the attached draft of letter at your early convenience.

Yours sincerely,

Jerome N. Frank

Enclosure.
Governor George Harrison
New York Federal Reserve Bank,
New York, New York.

Dear Governor Harrison:

Thank you for your letter of September 5. I was pleased to learn from Secretary Morgenthau that he has arranged with you that, in the near future, you and he and I will get together for a chat. Meanwhile, the Commission thinks it desirable that I should make the following comments on your letter:

Responsive to the last sentence of that letter, I want to say, most emphatically, that this Commission, composed as it is of public servants, can have and has no possible objection to receiving, for its consideration, from any citizen or group or committee of citizens, suggestions or proposals regarding matters within the jurisdiction of this Commission, and, ordinarily and as a general rule, can have and has no objection to the publication of any such proposals or suggestions.

I think it appropriate, however, to point out, and doubtless you will agree, that such proposals or suggestions, regarding matters within the jurisdiction of this Commission, if made by the committees recently appointed by you, have a quite different status, because of the circumstances under, and the purposes for, which these committees were appointed;
so that proposals or suggestions from them are not within that general rule. I have in mind the following:

In your letter you state that the plan of appointing such committees "was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war."

It so happens that there were no representatives of the SEC present at any such discussions concerning the appointment of such committees. Secretary Morgenthau has just sent me a copy of the transcript of the sole conference at his office at which that subject was considered. It occurred on April 13 when there were present only representatives of the Treasury and the Federal Reserve Board. The transcript shows that there was then discussed, to quote the words you then used, "a bankers' committee to which I might go in any hurry, upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do", and that such a committee should be in the nature of an "advisory committee". And until receipt of your letter of September 5, this Commission had never been informed of that
discussion of that subject. It follows that those committees were not appointed with the approval or concurrence of the SEC.

Your remarks at the April 13 conference, quoted above, also show that it was not contemplated that there be included in the scope of the activities of any such bankers’ committee any suggestions or proposals or other action concerning matters affecting the “securities markets”, or any other matters within the jurisdiction of the SEC, excepting insofar as they might come within the clause “anything else that the Treasury might want us to do.” Accordingly, it would seem that, when the Treasury and the Federal Reserve Board concurred in the suggestion of the appointment of such a committee they did not contemplate that such committee would make proposals or suggestions with regard to matters within our jurisdiction — except at the request of the Treasury.

Even more to the point is the fact that the discussion at the April 13 conference and your letter of September 5 show that those committees were appointed pursuant to those discussions to act (through your bank, “in its capacity as fiscal agent of the government”) in advising the Treasury, and perhaps the Federal Reserve Board. It is clear, there-
fore, that the committees are not merely groups of private citizens formed on their own initiative, but, with the concur-
rence of the Treasury and Federal Reserve Board, are to act in a quasi-governmental capacity as advisers to those
government departments.

Now, as you know, it is a well settled and proper practice that, if any department or agency of the federal
government, such as the Treasury or the Federal Reserve Board, at any time has any proposals or suggestions regarding the
matters within our jurisdiction, they transmit them to us in confidence and do not give them any publicity. Inasmuch,
therefore, as the committees which were appointed by you are to act, through you, as adviser to the Treasury, and perhaps
to the Federal Reserve Board, I assume that with respect to proposals or suggestions regarding matters within our juris-
diction, those committees will act similarly. In other words, I assume that you will promptly advise such committees so that
they will either, directly, or through you, transmit suggestions or proposals, if any, relating to matters within our jurisdiction,
in confidence and without any publicity, to the Treasury or the Federal Reserve Board, leaving it to those governmental agencies
to transmit those suggestions or proposals to the SEC, in confidence, as they may see fit; and that no publicity
whatsoever will be given by you or the committees to any such suggestions or proposals except with the prior approval of this Commission.

Sincerely yours,

Jerome N. Frank
Chairman
FEDERAL RESERVE BANK
OF NEW YORK

September 5, 1939

Hon. Jerome N. Frank, Chairman,
Securities and Exchange Commission
Washington, D. C.

Dear Chairman Frank:

I have received your personal letter of September 1 referring to our conversation on the telephone on August 31 concerning the committee recently set up at my suggestion by the various groups included in its membership.

You are quite right in assuming that this committee does not intend in any way to trespass upon the jurisdiction of the Securities and Exchange Commission. As I advised you on the telephone, the reason for the organization of the committee is to have available a group, representative of the principal financial interests in this market, through which this bank in its capacity as fiscal agent of the Government or otherwise may promptly obtain information or cooperative consideration in relation to important problems affecting this market as they may arise. Experience has demonstrated the extreme difficulty of doing this without such a representative committee of limited size.
While your Commission was not directly informed of the plan to organize this committee in advance, nevertheless, I had assumed that you were aware of the general plan to form such a committee because of advance references to it in the press and because it was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war.

I can assure you and your colleagues that there was no thought that the organization of this committee would in any way conflict with the jurisdiction or functions of the Securities and Exchange Commission, and I am sure that in whatever connection the committee may be called upon it will operate so that there will be no suggestion of any such conflict. I assume, of course, that you would have no objection to receiving suggestions or proposals from this group, as you would from any other group, regarding matters within the jurisdiction of the Commission, in the event that any such suggestions seemed wise or appropriate.

Faithfully yours,

/s/ George L. Harrison
George L. Harrison, President.
TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

September 8, 1939.

Mr. dear Mr. Secretary:

Please find attached memoranda on manganese, tungsten, chromite, hemp and optical glass.

In conversation with Mr. Veatch of the State Department this afternoon he informed me that the negotiations being carried on by the American Ambassador with the appropriate British government officials will unquestionably result in increasing the quota of tin allowed this country, making such quota retroactive to the first of July, which will have the effect of meeting all prospective demands of this commodity. He further stated that the price of tin has been fixed at £230 per ton. This figure compares favorably with the £229-7/8 per ton for spot delivery on August 31st.

Concerning quinine, the American Minister at The Hague has requested additional information to be presented to the Dutch Syndicate, and it was indicated that these negotiations might be favorably terminated at a very reasonable price per ounce.

Very respectfully,

Honorable Henry Morgenthau, Jr.,
Fishkill,
New York.
MANGANESE

SOURCES OF SUPPLY

The Union of Soviet Socialist Republics is the world's largest producer of the ferro grade manganese. British India, the Union of South Africa, the Gold Coast, Brazil and Cuba, in the order named, are the other principal producing countries. Manganese less suited for metallurgical purposes is produced in a number of other countries. During the first six months of 1939 35,000 tons of ferro grade manganese were imported from the Gold Coast, 24,000 tons from the U.S.S.R., 20,000 tons from Cuba, 12,000 tons from British India, and 3,000 tons from Brazil.

In comparison with world production the ferro grade manganese ore is produced in the United States only to a small extent. By far the greater part of the domestic consumption is dependent upon foreign imports. Montana, Arkansas, Tennessee, West Virginia, Virginia, New Mexico and Georgia are the principal producing states.

CONTROL

The planned production of manganese in the U.S.S.R. is under the control of the government.

The production of manganese in British India is regulated by British private enterprise.

In Brazil, Cuba and the Union of South Africa the production of manganese is controlled by American private enterprise. A certain amount of production on the Gold Coast is controlled by American capital.

USES

Manganese ferrograde is indispensable in the manufacture of steel for two
reasons; first, as a dioxidizing or purifying agent in all steel manufacture, and second, as an alloying element in the manufacture of special purpose steels.

Domestic consumption in 1937 for metallurgical purposes was 770,496 tons of which only 26,419 tons were shipped from mines in the United States. The principal sources of imports were Russia, Gold Coast and Cuba, which sources accounted for approximately 90% of the total imports. There is no substitute for manganese.

$2,500,000 has been allocated for the purchase of manganese which it is planned to store at the Curtis Bay Ordnance Depot, Baltimore, Maryland, and at the Ogden Ordnance Depot, Ogden, Utah.
TUNGSTEN

SOURCES OF SUPPLY

The principal sources of supply of tungsten ore are China and British Malaya. Tungsten ore is also produced in Argentina, Bolivia, Mexico and Peru, but the combined output of the western hemisphere is not sufficient to meet domestic consumption in the United States. Tungsten ores are also obtained from Arizona, California, Colorado, Idaho, Missouri, Montana, Nevada, New Mexico, South Dakota, Utah and Washington. The protection afforded domestic producers by the tariff has kept the industry alive and permitted the production of 3,500 short tons of ore in 1937, as compared to the importation of 9,350 short tons of foreign ores.

CONTROL

The production of tungsten ore in the countries mentioned as sources of supply is under the government control of each.

USES

The principal use of this material is in the manufacture of special alloy steels, the most important of these being high-speed tool steels used for cutting operations. Other tungsten alloy steels are used in the production of a wide range of industrial products and military equipment such as projectiles, ordnance and armor plate.

$500,000 has been allocated for the purchase of tungsten which will be stored in the Columbus General Depot, Columbus, Ohio.
SOURCES OF SUPPLY

The principal sources of supply of chromite are South Africa, Cuba, New Caledonia and the Philippine Islands. Approximately 50% of the foreign ore imported came from South Africa. Chromite is mined domestically in Nevada, California and Oregon but in relatively small quantities. The domestic consumption in 1937 was 556,237 tons of which only 2,321 tons came from domestic mines.

CONTROL

Practically all of the mines operated in the foreign countries indicated above are under government control.

USES

Chromite is used in the manufacture of ferro-alloys, chemicals and refractories. Its principal use is in the manufacture of numerous alloy steels designed for specific purposes, both civilian and military. In many of its uses there is no substitute for chromite.

$1,100,000 has been allocated for the purchase of chromite which will be stored in the Oden Ordnance Depot, Oden, Utah, and the New Cumberland General Depot, New Cumberland, Pennsylvania.
MANILA FIBER

SOURCE OF SUPPLY

The Philippine Islands is the only source of supply as it is the only country in the world that produces manila fiber.

CONTROL

There is no governmental control other than the commercial grading of manila fiber in the Philippine Islands. The sale and marketing of this commodity is controlled by a dozen or more of private companies, and it is sold in the open market under grades established by the Insular Government of the Philippine Islands.

USES

Manila fiber is used in the manufacture of high grade rope and cordage, such as marine rope, transmission rope, rope used for construction purposes and hard fiber twine.

$320,000 has been allocated for the purchase of manila fiber which will be stored at the Army Base, Boston, Massachusetts.
**OPTICAL GLASS**

**SOURCES OF SUPPLY**

There is no available information concerning the world production of optical glass. While Germany is probably the principal foreign source of this commodity, it is also produced in England and France. In the United States it is produced by the Bausch and Lomb Company of Rochester, New York. The Pittsburgh Plate Glass Company and the Corning Glass Works are also potential sources of supply. In addition to these companies, the Bureau of Standards is presently supplying practically all of the optical glass used by the Navy in their manufacture of optical instruments. Inquiry develops the fact that the output of the Bureau of Standards can be sufficiently increased to provide the optical glass required in the strategic and critical material program in the event that it should be impracticable to get it from one of the three commercial firms mentioned above.

**USES**

Optical glass is used in the manufacture of microscopes, field glasses, range finders, gun sights, periscopes, aiming circles, photographic lenses and other optical instruments.

$50,000 has been allocated for the purchase of optical glass which will be stored at the Fairfield General Depot, Fairfield, Ohio, and the Washington Navy Yard, Washington, D.C.
SECRET

8 September, 1959,

To: The Secretary of the Treasury.
From: C. O. Dunbar, Collector of Customs,
San Francisco, California.

Refer Department wire 5th instant regarding European passports. Orders have been issued by the American Presidents Line prohibiting visitors going on board their vessels on sailing days in order that a better check of passenger passports might be had in connection with a representative of the State Department.

Local passport agency contacted steamship line prior to our doing so upon receipt of wire from Chief of Passport Division. It was implied by company draft that this change was being made upon suggestion of Customs and State Departments. While we did suggest considering such action the company apparently did not consider it favorably at that time. Does the Secretary perceive any objection to prohibiting visitors aboard on sailing days vessels operated by San Francisco Navigation Company, American Presidents Line and Nippon Yusen Kaisha.
September 8, 1939.

My dear Mr. Secretary:

In response to your request of September 7th I am directing Mr. James W. Young, Director of the Bureau of Foreign & Domestic Commerce, Department of Commerce, to serve as our representative on the committee which is to advise with your Department in connection with the administration of the executive regulation of September 6, 1939, concerning credits to belligerents.

Very truly yours,

Edward J. Noble,
Acting Secretary of Commerce.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.
THE SECRETARY OF COMMERCE  
WASHINGTON

September 8, 1939.

My dear Mr. Secretary:

In response to your request of September 7th I am directing Mr. James W. Young, Director of the Bureau of Foreign & Domestic Commerce, Department of Commerce, to serve as our representative on the committee which is to advise with your Department in connection with the administration of the executive regulation of September 6, 1939, concerning credits to belligerents.

Very truly yours,

Edward J. Noble

Edward J. Noble,
Acting Secretary of Commerce.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.
By phone this afternoon, the Secretary told Mr. McReynolds that in connection with arranging to seal radios in German vessels in our ports, it had occurred to him that that precaution was rather futile so long as these amateur radios were licensed to broadcast a couple of hours every night and were able to put anything on the air they chose and Mr. McReynolds, at the Secretary's suggestion, through the General Counsel's Office, communicated with the General Counsel of Communications Commission calling their attention to this situation and suggesting a careful review of amateur licenses.
FOR THE SECRETARY:

Secretary Edison's aide has said that Mr. Edison has no objection to putting out a press release on the arrangement with the steel companies. I have drafted and submitted to him -- and to Mr. Hanes and Mr. Foley -- the attached suggested press release.

As you will see from the draft, the steel companies have not yet accepted the agreement. I am not sure that Secretary Edison, or his aide, is aware of this fact, or that you knew it when you suggested a press release.

Attachment

ESD
To assist the Navy in the execution of its ship building program, Secretary Morgenthau, exercising authority given him in section 3760 of the Internal Revenue Code, has offered to sign a closing agreement with three steel companies which supply armor plate for naval vessels.

In order to furnish the Navy with armor plate rapidly enough to fill the Navy's needs, the three steel companies would have to invest about $6 million in additional equipment. They were not inclined to do so, claiming that, whereas the equipment would be of little value to them except on naval work of this character, they might not be given any allowance for the cost of the equipment when the work is completed and their profits are computed under the Vinson-Trammell Act. The Vinson-Trammell Act limits profits on naval ship building contracts to 10 percent of the contract price and charges the Bureau of Internal Revenue with enforcing the limitation.

The following arrangement has been worked out and offered to the steel companies:

If the companies so request and if the Navy certifies that the request is technically justifiable, the Treasury will sign a closing agreement with the companies under section 3760 of the Internal Revenue Code. The agreement would bind the Treasury to
allow up to 50 percent of the cost of the machinery to be charged off when the companies' profits are computed under the Vinson-Trammell Act. The agreement would further bind the Treasury to investigate the condition of the machinery and the possible uses for it at the time that the Navy contract is completed to determine whether more than 50 percent of the cost of the special equipment should be allowed as a deduction.

The steel companies have not yet informed the Navy whether the proposed agreement is acceptable to them.

The general formula worked out in this instance is applicable to other contracts under the Vinson-Trammell Act, which covers the construction of battleships and aircraft, although the exact terms would depend in each case upon the technical factors in that case. The Treasury, War and Navy departments each have special committees to handle matters under the Vinson-Trammell Act; the three committees meet jointly to consider common problems.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 8, 1939.

TO Secretary Morgenthau
FROM Mr. Gaston

Wasache is proceeding right away to extend the system of reporting ships' movements by establishing an Office of Ship Movements in each of the principal ports. I have asked Pollio to cease confining himself in his daily reports to German and Italian ships and to include in his report of ships in port all foreign ships and also to note important movements. His report will be built up as the information begins to flow in from the new system of reporting.

I had a meeting today with Irex, Gorman, Shamhart and Pollio on coordination matters. Shamhart suggested that we ought to reestablish immediately the system of intensive patrol of the border including the sea coast that we had in effect during the liquor and narcotic drives. On the seacoast, notably in Florida, it involves a system of cooperation between Coast Guard and Customs Control and more regular use of automobile patrol by the Customs Control. I spoke to Basil Harris about it and he said that Johnson disagreed with Shamhart. In view of this I called a meeting for this afternoon at which Harris, W. R. Johnson, Shamhart and Wasache were present. I presented the view that we ought to do a little more than necessary rather than a little less at this time. Johnson thinks that it will take Customs patrolmen from more essential work. We left it this way—that Wasache and Shamhart will get out a report together as to just what it will involve.
in the way of Customs cooperation. Johnson thinks he ought to send some men down to the Florida Coast to find out just what is being done now as there is a difference as to facts between Shamhart and Ballinger's Committee. I told Harris that in any event the Coast Guard would extend its reporting service and do everything it could to observe surreptitious ship movements.
The Honorable
Henry Morgenthau, Jr.,
Secretary of State.

Dear Henry:

On further reflection, I think that the letter to Governor Harrison should be changed so that the last paragraph will read as follows:

"Now, as you know, it is a well settled and proper practice that, if any department or agency of the federal government, such as the Treasury or the Federal Reserve Board, at any time has any proposals or suggestions regarding the matters within our jurisdiction, they transmit them to us in confidence and do not give them any publicity. Inasmuch, therefore, as the committees which were appointed by you are to act, through you, as adviser to the Treasury, and perhaps to the Federal Reserve Board, and as the scope of their advisory activities, as described by you at the April 13 conference, were not to include matters within the jurisdiction of this Commission, except at the request of the Treasury, I assume that you will promptly make the following clear to the committees: (1) Neither of those committees will make proposals or suggestions regarding matters within our jurisdiction, except at the request of the Treasury; (2) if the Treasury should request that either of those committees make suggestions or proposals as to matters within our jurisdiction, then (3) the committees will (either directly or through you) transmit those suggestions or proposals to the Treasury or the Federal Reserve Board, in confidence, and without any publicity, leaving it (4) to the Treasury and the Federal Reserve Board to transmit those suggestions or proposals to the SEC, in confidence, as they may see fit, so that no publicity whatever will ever be given by you or the committees to any such suggestions or proposals, except with the prior approval of this Commission."
My purpose in making that change is this: I think that in view of Mr. Harrison’s statement at the April 13 conference with you and the Federal Reserve Board representatives, his committees should not make suggestions or proposals even to the Treasury or the Federal Reserve Board, concerning matters within the jurisdiction of the SEC, except at your express request. If that is made entirely clear, I would then like to have it understood with you that no one in the Treasury or Federal Reserve Board will, without the prior approval of this Commission, ask either of Mr. Harrison’s committees to make any suggestions or proposals as to matters within our jurisdiction. My reason for taking that added precaution is the fear of adverse publicity, because of the facts stated in my earlier letter to you today and in the memoranda to the President, copies of which I left with you the other day.

For the reasons stated in my earlier letter of today, I want to send my letter to Mr. Harrison tomorrow (Saturday), and would therefore be greatly obliged if you would phone me about this and my earlier letter, Saturday morning.

Sincerely yours,

Jerome N. Frank
Chairman
The Honorable
Henry Morgenthau, Jr.
Secretary of State,
Washington, D. C.
Secretary of State,
Washington.

1533, September 8, 6 p.m.
FOR TREASURY FROM BUTTERWORTH.

Official exchange rates today were unchanged for New York, Amsterdam and Switzerland, Montreal 4.35-9, Paris 175-7, Brussels 23.57-97, Stockholm 16.85-17.02, and Oslo 17.67-84.

The Stock Exchange was even more quiet today than yesterday. No indices of stock prices have appeared in the press this week but except for copper and shipping shares which were strongly in demand, industrial shares are about or slightly above the level before the exchange closed last Friday. The minimum prices are still being adhered to for gilt-edged securities, and there is a little business being done at these prices.

Today's Treasury bill rate was £3.12s.6d. as compared with £3.14s.3d. last week. Full details of the Bank of England return mentioned in my No. 1516 of September 7, 9 p.m. reveal gold holdings in issue Department at £102 thousand.

KENNEDY
Norman E. Hamilton, publisher of the Portsmouth, Virginia, Star, and former Congressman from the Norfolk district and former Collector of Customs at Norfolk, called on me this morning at the suggestion of Steve Early and General Watson, whom he had seen yesterday.

Hamilton, who was Collector of Customs at Norfolk in the Wilson Administration, is a vigorous supporter of the President and therefore persona non grata to Byrd and Glass. He was defeated by their man Darden in 1934. He is interested in having a man who is reasonably friendly to the Administration appointed Collector of Customs at Norfolk. A vacancy exists due to the death of Collector Truxton early this summer. Truxton had been ill for a long time and the office has been very competently handled by Vipond, the Assistant Collector, who was appointed by Hamilton during his term as Collector.

Hamilton told me that a man named James E. Heath has been recommended by Walter Moore, who, I believe, is the National Committeeman. Heath, Hamilton tells me, is seventy years old and a sick man, and Hamilton tells me he is a protege of Glass. Hamilton himself would be willing to serve as Collector, with or without pay. He thinks, however, that if his name were sent up to the Senate Byrd and Glass would just hold the nomination up without confirmation.
In view of this situation Hamilton is recommending as a candidate Ezra T. Summers of Norfolk, an insurance man, whom Hamilton brought in with him. Summers is a vigorous, intelligent appearing fellow in his thirties and has good family connections, which are important in Virginia. Hamilton doubts that the Senators would refuse confirmation to Summers.

I told Mr. Hamilton that we would not be likely to advocate actively any candidate for the position, but would, no doubt, refuse to accept anyone who was manifestly unfit for service at this time.
Washington,
September 9, 1939
11 a.m.

AMERICAN CONSUL
SYDNEY VIA MONTREAL

Press reported August twenty-eight that Australian Government had established exchange control. Please cable details of this and any other developments affecting foreign trade.

HULL (HS)
September 9, 1939

Confidential

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

Dear Henry:

As I told you on September 7, I wanted you to see my reply to Harrison's September 5 letter before it was mailed, and, accordingly, I sent a draft of the same to you in my first letter of yesterday, with a modification in my second letter of yesterday. (By inadvertence in sending that second letter, my secretary addressed you as the Secretary of State, but I hope you will forgive her and me.) Not hearing from you, I phoned your office this morning and found that you had left the City on September 8 and would not return until September 11, which doubtless explains why I did not hear from you.

For the reasons explained in my letters to you of yesterday, the Commission felt that it was imperative that we should no longer delay in replying to Harrison, and therefore decided today that, even though you had not had opportunity to read the proposed letter, it should be sent today. I trust you will understand. I enclose a copy of the letter as sent.

Our apprehensions were augmented by an editorial in the Wall Street Journal for today, a copy of which I enclose. It lays the foundation for public comments by Harrison's committees on SEC activities, comments which we feared would be forthcoming in the very near future, in the absence of such a letter as I have written to him.

Repeating what I said in my second letter of yester-
day, I hope matters can be so arranged that, if Harrison agrees with my understanding of the situation
as explained in my letter, no one in the Treasury or the Federal Reserve Board will, without our prior approval, ask either of Harrison's committees to make any proposals or suggestions concerning matters within our jurisdiction.

Sincerely yours,

[Signature]

Jerome N. Frank
Chairman

Enclosure

P.S. In the press for today, there is reported a radio talk made yesterday by Mr. Martin, President of the New York Stock Exchange, in which he said that the Exchange, in making plans to cope with the emergency, "cooperated closely with officials in Washington, in the Treasury and in the Securities and Exchange Commission." I know that the Treasury was appropriately interested in activities of the Exchange with respect to the government bond market, and it may well be that, for that purpose, Treasury officials have cooperated with the Exchange. I know, of course, that you'll see that our lines won't get crossed and that you and I will keep in touch with one another so that the Exchange does not, without our prior concurrence, receive advice or suggestions from Treasury officials concerning Exchange activities which are within our jurisdiction.

JNF
September 9, 1939

Governor George Harrison,
New York Federal Reserve Bank,
New York, New York.

Dear Governor Harrison:

Thank you for your letter of September 5. I was pleased to learn from Secretary Morgenthau that he has arranged with you that, in the near future, you and he and I will get together for a chat. Meanwhile, the Commission thinks it desirable to make the following comments on your letter:

Responsive to the last sentence of that letter, we want to say, most emphatically, that this Commission, composed as it is of public servants, can have and has no possible objection to receiving, for its consideration, from any citizen or group or committee of citizens, suggestions or proposals regarding matters within the jurisdiction of this Commission, and, ordinarily and as a general rule, can have and has no objection to the publication of any such proposals or suggestions.

The Commission thinks it appropriate, however, to point out, and doubtless you will agree, that such proposals or suggestions, regarding matters within the jurisdiction of this Commission, if made by the committees recently appointed by you, have a quite different status, because of the circumstances under, and the purposes for, which these committees were appointed; so that proposals or suggestions from them are not within that general rule. We have in mind the following:

In your letter you state that the plan of appointing such committees "was discussed in some detail at the series of meetings held in Secretary Morgenthau's office last April when the various departments of the Government, including the Securities and Exchange Commission and the Federal Reserve System, outlined actions to be taken in the event of war."
It so happens that there were no representatives of the SEC present at any such discussions concerning the appointment of such committees. Secretary Morgenthau has just sent me a copy of the transcript of the sole conference at his office at which that subject was considered. It occurred on April 13 when there were present only representatives of the Treasury and the Federal Reserve Board. The transcript shows that there was then discussed, to quote the words you then used, "a bankers' committee to which I might go in any hurry, upon any matter dealing with credit, loans, foreign exchange, gold, or anything else that the Treasury might want us to do," and that such a committee should be in the nature of an "advisory committee". And until receipt of your letter of September 5, this Commission had never been informed of that discussion of that subject. It follows that those committees were not appointed with the approval or concurrence of the SEC.

Your remarks at the April 13 conference, quoted above, also show that it was not contemplated that there be included in the scope of the activities of any such bankers' committees any suggestions or proposals or other action concerning matters affecting the "securities markets", or any other matters within the jurisdiction of the SEC excepting insofar as they might come within the clause "anything else that the Treasury might want us to do." Accordingly, it would seem that, when the Treasury and the Federal Reserve Board concurred in the suggestion of the appointment of such a committee they did not contemplate that such a committee would make proposals or suggestions with regard to matters within our jurisdiction -- except at the request of the Treasury.

Even more to the point is the fact that the discussion at the April 13 conference and your letter of September 5 show that those committees were appointed pursuant to those discussions to act (through your bank, "in its capacity as fiscal agent of the government") in advising the Treasury. It is clear, therefore, that the committees are not merely groups of private citizens formed on their own initiative, but, with the concurrence of the Treasury and Federal Reserve Board, are to act in a quasi-governmental capacity as advisers to the Treasury.
Now, as you know, it is a well settled and proper practice that, if any department or agency of the federal government, such as the Treasury, at any time has any proposals or suggestions regarding the matters within our jurisdiction, it transmits them to us in confidence and does not give them any publicity. Inasmuch, therefore, as the committees which were appointed by you are to act, through you, as advisers to the Treasury, and as the scope of their advisory activities, as described by you at the April 15 conference, was not to include matters within the jurisdiction of this Commission, except at the request of the Treasury, the Commission assumes that you will promptly make the following clear to the committees: (1) Neither of those committees (nor any subcommittees) should make proposals or suggestions regarding matters within our jurisdiction, except at the express request of the Treasury; (2) if the Treasury should request that either of those committees make suggestions or proposals as to matters within our jurisdiction, then (3) the committees (or subcommittees) will (either directly or through you) transmit those suggestions or proposals to the Treasury in confidence, and without any publicity, leaving it (4) to the Treasury to transmit those suggestions or proposals to the SEC in confidence, as the Treasury in its discretion may see fit, so that no publicity whatever will ever be given by you or the committees to any such suggestions or proposals as to such matters, except with the prior approval of this Commission.

Sincerely yours,

Jerome F. Frank
Chairman
It should not escape observation that several heads of federal government departments have very recently invited the counsel of non-official advisory groups and that among the men selected for these conference activities are representatives of the producing industries, the distributive trades and both institutional and investment banking. The proportions of such members in the composition of the advisory committees, moreover, are rather surprisingly large.

This is one phase of the Administration's reaction to the new conditions which the country must reckon with as a result of war in Europe and it would appear to be a decidedly important one. If the present selection of non-official advisers contrasts sharply in respect to experience, attainments and general point of view with the corresponding advisory recruits of recent years, the difference may be taken to reflect a new willingness in Administration quarters to listen to those who have had years of daily contact with industrial and trade processes, with fluctuating labor relations, with the needs and preferences of exacting consumers, with all the intricately related factors that combine to govern the operation of the business machine.

To say that such a reconciliation between "government" and "business" might long since have taken place does not detract from its present value to the country as a whole--assuming that now it has in fact occurred. No doubt that assumption should be made only tentatively, subject to later verification or disproof. But at the moment it appears that real lines of communication have been established between private enterprise on the one hand and Treasury, Agriculture, War and Navy Departments on the other.

This departure from the long familiar Administration attitude toward business leadership gains interest--and perhaps also gains importance--from the demand now so frequently heard in so many quarters for "a truce to politics." A great deal depends, of course, upon the definition to be given to "a truce" in this connection. If anyone supposes that a truce here means a suspension of the critical faculty honestly exercised in Congress.
or in the press or on the public platform, he is imagining a vain thing. Such a truce, even if it were possible to bring about, would do our people no service. No more now than at any other time can a party in power expect the country supinely to accept whatever it proposes. On the contrary, the idea of cooperation for the general welfare which the appointment of these new advisory bodies implies itself means the complete freedom of the counselors to bring honest—that is, non-partisan and unselfish—criticism to bear upon what government does and proposes to do. The same freedom, naturally, remains to the rank and file of citizens.

In this sense a truce to politics can be realized and will be wholesome to invigorate our economic and political life. Within the limits here crudely drawn a reconciliation between government and business can be attained, without sacrifice of any real reforms accomplished or attempted under the New Deal.
The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris
DATE: September 9, 1 p.m.
NO.: 1872
FOR THE TREASURY.

Section 1. This morning Professor Charles Rist called on us. His five sons have now been mobilized. Professor Rist is a member of a small committee which is working closely with the pertinent British authorities in an effort to make as tight as possible the economic blockade of Germany. That all possible measures be taken to prevent supplies of any nature useful in war from reaching Germany through neutral ports or otherwise he believes to be of the utmost importance. Once the German General Staff is convinced of the effectiveness of the blockade, there will be a much greater chance of preventing a long-drawn-out war. The professor stressed the importance of bottling up the Mediterranean entrances at Suez and at Gibraltar; that Italy should always be assured of sufficient supplies for her own use, as long as she remains neutral; that such effective control of the Mediterranean would influence the Balkans with great moral effect.

BULLITT

EA: MBG
PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1972, FROM THE AMERICAN EMBASSY, PARIS, SEPTEMBER 9, 1 p.m.

Professor Rist went on to say that, speaking personally and off the record, he felt that we could be of great practical assistance in preventing supplies reaching Germany, through neutral ports, from the United States. However, he said he had no idea as to what detailed procedure would be required in order to render such assistance. It was his recollection that we had been zealous during the last war in protecting our ocean commerce destined for Germany ultimately. However, he hoped that with the change in public opinion in the U.S. over 1914 our attitude toward the Allies would be more sympathetic; during the World War it was not until 1917 that the British and French had been able to choke off supplies destined for Germany, definitely. He considered it of vital importance that, in this war, no such delay should occur.

BULLITT

EA: MSG
PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 1872,
FROM THE AMERICAN EMBASSY, PARIS, SEPTEMBER 9, 1 p.m.

Professor Rist thought that the raw material help which Russia could give Germany was easily exaggerated. On the following facts he placed emphasis: there is a serious lack of transport facilities; the distance of needed raw materials from the Baltic ports is great; there is a lack in Russia of exportable surpluses in some cases; except in political or territorial cash, Germany is unable to "pay" for them.

He believes that the potentiality of Italy's entering the war when Poland is defeated and Germany turns west will depend in large part on whether or not the Mediterranean is controlled by the Allies. On good authority he was given to understand that the Nazi leaders had withheld news of Italy's neutrality from the German Generals until just before the attack on Poland by Germany.

BULLITT

EA: MSG
Secretary of State
Washington

1972, September 9, 1 p.m. (SECTION FOUR)

From the financial point of view he felt that France was in excellent shape particularly with respect to gold reserves. He foresaw no early difficulties in financing the war through national defense bonds and short term treasury bills. He said now that the people perceived that no moratorium is taking place in happy contrast to 1914 -- and notwithstanding that immediate emergency needs have been satisfied money will flow back to the banks. France has been called upon to endure severe tax increases recently and it would be difficult to raise them substantially further for the moment. While he looks for no great pressure on the franc in the immediate future he feels that exchange control is inevitable. We pointed out that while no form of control exists today in effect the reluctance of the Bank of France to furnish foreign exchange for appropriate but carefully scrutinized licensed imports seems to indicate considerable progress has already been made toward such control with which statement he readily agreed.

CSB

BULLITT
Paris
Dated September 9, 1939
Rec'd 4:00 p.m.

Secretary of State,
Washington.

1939, September 9, 1 p.m. (Section five).

No exchange rates were quoted by the Bank of France this morning. While the market between banks quotes the pound from 177.50 to 179.50 and the dollar around 44 there have been practically no transactions.

Under a decree published in the Journal Officiel today the special national tax of two percent on income from professions of private individuals and companies and associations decreed in November last (see the Embassy's despatch No. 3349 of November 23, 1938) will be increased to 4 percent after January 1, 1940. For men between 18 and 49 years old not belonging to a military formation dating from October 1 next the rate of the same tax is increased to 15 percent as concerns (A) public and private salaries and allowances and life annuities and (B) industrial, commercial and agricultural profits and income from non-commercial professions earned after October 1, 1939 and assessable on these men. (End of message).

OSB

BULLITT
The expected switch in orders to the United States is very noticeable. The principal obstacle is the exchange of cash in the United States before shipment. This is further complicated by Brazilian exchange regulations.

In view of the number of appeals received by the Embassy from Brazilian importers, the Embassy today discussed this matter with the Director of Exchange and obtained an important concession.

Although the banks are permitted to open credits abroad (my telegram Number 251 of August 17, 1939) they are reluctant to do so because the Bank of Brazil is not guaranteeing the delivery of future exchange. The Director of Exchange now assures me that the bank will close future exchange for credits opened in the United States for the purchase of essential products. This action will facilitate purchases of steel products, chemicals, pulp, et cetera formerly imported from European countries. Each case will be decided upon its own merits.
NC -2- #317 from Rio de Janeiro, September 9, 1939

The bank has also resumed the sale of future exchange for payment of merchandise cleared through Brazilian customhouses.

CONFIDENTIAL. The exchange balance of the bank now approximates $7,200,000. The bank continues to fix the buying and selling rates for dollars at milreis 19.830 and milreis 19.980 respectively. Exchange operations are normal.

CAPPERY

PEG
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin
DATE: September 9, 9 a.m.
NO.: 1156

SO, CONFIDENTIAL FOR TREASURY FROM HEATH.

I was informed today by Puhl, the active head of the Reichsbank, that the Reichsbank was endeavoring to conclude a new standstill agreement with the neutral countries of Switzerland, Holland, Belgium and the United States along the lines of the old standstill arrangement, in the long-term interest of Germany and of the short-term creditors themselves. Furthermore, interested Swiss bankers had already accepted in principle and it was expected that the Dutch would act accordingly. Puhl was uncertain as to the attitude of the creditors in Belgium. Neither had he had formal acceptance from the American Standstill Committee; the Committee had merely wired that it was giving sympathetic study to the proposal; however, he mentioned confidentially that the National City Bank was willing to enter into a new standstill arrangement either with the other American banks or alone.

Puhl said he could understand the action of the American banks in joining the British in denunciation of the standstill agreement but he regretted it. Without apparent rancor, he mentioned the fact that various American banks, including the Bank of Manhattan, had, following the demunciation, brought
brought suit to impound not only German private banks' and gold Discount Bank funds in the United States and Amsterdam, but funds of the Reichsbank. However, he insisted that the latter institution was neither a debtor nor a guarantor under the standstill agreement.

The best thing he could do at the present time, Puhl said, was to refrain from going to Bâwel to attend the B.I.S. meetings.

There are a tremendous number of problems confronting the Reichsbank, he added; however, he did not vouchsafe plans or details. Regarding Government finance, he remarked that the Government would gradually cease issuance of the tax anticipation certificates of the new finance plan of last spring. The Reichsbank had always opposed this plan not only on grounds of their expense but more especially because the class 2 certificates presented distinct dangers of inflation, being legal tender for certain payments. Puhl anticipates that the Government will meet its needs in so far as they are not covered by the increase of taxation by the issuance of short-term Treasury paper and "normal" loans.

KIRK
Secretary of State,
Washington.

1667, September 9, 3 p.m.
Embassy’s 1279, August 27, 8 p.m.; 1344, September 1, 1 p.m., paragraph two; 1487, September 5, 8 p.m.

The Embassy has received a number of letters of inquiry on this subject from Americans living in England. The majority of them are dual nationality cases: American women who have retained their American citizenship but who have married British subjects and have lived here for some time; others come from Americans who have been residing in England for several years or more.

Please instruct as to the forms of reply to be made.

Incidentally, the various British financial measures have been informally discussed with the British Treasury from time to time. Individual cases of hardship in the administration of the foreign exchange provisions have been effected and the British Treasury has indicated that it is now considering what can be done in such cases as those mentioned in telegram No. 1344, September 1, 1 p.m.

KENNEDY.
I called Mr. Cariguel at 11:50 today to inform him that there were two best selling orders in the market for a total of 11,000,000 francs and both coming from China. I also mentioned that we had received no cable from him today on gold or exchange transactions.

Cariguel asked me to hold on for a moment and after conferring with somebody else, stated that they were unwilling to take in the offered francs. The whole question of the franc exchange was being discussed now and that was also the reason why he had not cabled us today. He expected, he said, to be ready to talk to me on the telephone again on Monday.

I emphasized that my telephone call had been made only for the purpose of keeping him posted as to what was going on here.

I made the request that he give the necessary instructions that there be mailed to us by the quickest available route, three copies of the official texts of all laws, decrees, regulations, etc., published in France since September 1 or to be published hereafter, dealing with financial and commercial matters. We were beleaguered here with inquiries and not in a position to answer them intelligently without the above. Cariguel promised that he would see to it that my request was complied with.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 9, 1939

TO Secretary Morgenthau
FROM W. H. Hadley

Treasury Share of Recent Market Purchases

From August 31 through September 9, inclusive, various Treasury accounts have taken a total of $50,307,950 out of a total of $379 million purchased in the market by the Federal Reserve Bank. The break-down of the Treasury’s share by investment accounts is shown below. With the exception of purchases for the HOLC, the Treasury took only the four longest bonds.

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt. Life Insurance Fund</td>
<td>$28,345,000</td>
</tr>
<tr>
<td>Postal Savings</td>
<td>$10,945,000</td>
</tr>
<tr>
<td>Alien Property Bureau</td>
<td>$2,400,000</td>
</tr>
<tr>
<td>Mutual Mortgage Ins.</td>
<td>$1,825,000</td>
</tr>
<tr>
<td>D. C. Teachers</td>
<td>$107,000</td>
</tr>
<tr>
<td>Treasury Bonds Purchased</td>
<td>$43,622,000</td>
</tr>
<tr>
<td>H. O. L. C. Retirement Fund</td>
<td>$6,585,950 *</td>
</tr>
<tr>
<td></td>
<td>$50,207,950</td>
</tr>
</tbody>
</table>

* Issues under par.
Secretary of State

Washington

RUSH
1891, September 10, 4 p.m.

FOR THE TREASURY.

Our telegram Number 1492 September 10, 2 p.m.

The Finance Ministry tells us that the rates to be established tomorrow have not yet been finally determined but that the pound (sterling) will be quoted at around 176 and the dollar between 43.50 and 44.

The exchange control measures are being published under five headings. The first of these is a law "prohibiting or regulating in time of war the export of capital, foreign exchange operations and transactions in gold". It consists of five fairly brief articles. "Export of capital under any form is prohibited unless authorized by the Minister of Finance or by an authority delegated by it". Exchange operations thus authorized must be handled through the Bank of France and/or banks or exchange brokers specifically approved by the Minister of Finance. The purchase sale of, or transfer of foreign securities and other foreign stock or foreign securities may be subjected by decree to the same regulation.

"All actions, negotiations and other operations relating to
to gold will require the authorization of the Bank of France. "Import and export of gold in any form is prohibited unless authorized by the Bank of France."

Infractions of the law and pertinent decrees are punishable by fines ranging from one hundred to one hundred thousand francs and imprisonment of from one to six months. Repeated infractions are punishable by imprisonment up to five years. (END SECTION ONE)

LULLITT

CSB
Secretary of State,
Washington.

RUSH,
1894, September 10, 4 p.m. (SECTION TWO).

The second measure is a decree implementing the foregoing. It defines export of capital as follows: (a) the acquisition of movable or immovable property and rights situated abroad or expressed in foreign currencies; (b) leaving outside of French territory or holding in foreign currencies all or part of the proceeds of exports or payment for services rendered abroad as well as all or part of all proceeds or revenue cashed abroad; (c) export of all securities, rights, credit and ownership certificates and (d) when effected otherwise than under conditions determined by present decree exchange operations carried out in France or by physical persons residing in France and French or foreign moral persons for their French establishments.

Physical persons of foreign nationality not residing in France as well as foreign moral persons for their establishments situated outside France may be authorized to transfer the cash, securities, or property possessed by them in France or the equivalent thereof if proof is furnished.
furnished that they belonged to them on the date of the promulgation of the law.

"The same persons may be authorized to transfer cash, property, or securities subsequently acquired with foreign funds as well as the constituted cash and securities or property acquired with revenue from any property or securities possessed in France".

The physical persons of French nationality not residing in France as well as French moral persons for their firms situated outside of French territory may also benefit by the authorizations indicated in the two preceding paragraphs.

The foreign exchange office referred to below is authorized to acquire all foreign currencies and credits.

The foreign exchange office is authorized to deliver foreign currencies (one) for payment of merchandise imported into France under conditions to be laid down (two) for payment of debts (three) for expenses of foreign travel within certain limits.

All persons leaving France must prove that they are not carrying any cash, notes, securities, at etcera, the exportation of which is prohibited as indicated above. However such persons may carry checks or letters of credit or other similar document as well as French or foreign bank or cash notes in the case of persons not resident in France up to the amount which they held when entering France.
France. As concerns persons finding themselves on French territory on the date of the present decree transitory measures will be taken; as concerns persons living in France, upon representation of their visaed passport, a maximum of five thousand francs may be authorized. This amount may be increased in case of an extended residence but is not to exceed ten thousand francs per month of foreign residence. A decision by the Minister of Finance is necessary for larger amounts.

The importation of French banknotes may be regulated by decision of the Minister of Finance.

On entering French territory all persons must declare cash, notes, securities carried.

The issue of money orders, transfers and all postal or telegraphic money items, in French colonies, protectorates and territory under mandate and foreign countries, is subordinate to the authorization of the foreign exchange office in question and within the limits set forth above.

All registered packages for French colonies, protectorates and territory under French mandate and foreign countries must be presented open to the postal authorities and closed in their presence after verification.

The delivery of authorizations for the export of capital under the provisions of the new law summarized in Section one of the Minister of Finance in accordance with the provisions of the present decree by a foreign exchange
exchange office administered by the Bank of France for
the account of and under the responsibility of the state.

The exchange operations referred to in the law
"include all operations of purchase, sale, cession,
transfer and collection of foreign currencies, at a loss
in foreign currencies and foreign sight or short term
credits, notably coins - excluding gold coins, which are
subject to the above mentioned provisions of the law
relating to gold - foreign bank notes, checks, drafts,
bills of exchange, coupons, interest, subscription rights,
et cetera." These operations may only be handled through
the foreign exchange office or banking establishments and
exchange brokers specially authorized by the Minister of
Finance. These must keep and present to the authorities
full and detailed records of their daily exchange opera-
tions on forms provided. They like all other physical or
moral persons engaged in any sort of banking operations or
commercial transactions with foreign countries are
required to show their accounts to inspectors of the
Ministry of Finance.

Gold covered by the law is defined in this decree
as money, bars, ingots, plaques or that employed in
industrial uses of any variety. Approval of the Bank of
France is required for all purchases or sales in France
or abroad gold deposit obtaining in France or abroad
contracts with gold security wherever held or whatever
the
LAR-5, 1894, September 10, 4 p.m. (Section two) from Paris.

the operations for which it is established. The provisions of the law are applicable to all operations carried out in France or by physical persons residing in France and French and foreign moral persons acting on behalf of their establishments in France. (END SECTION TWO).

BULLITT

HBD
Part of this message must be closely paraphrased before being communicated to anyone. (C)

Secretary of State,
Washington,

RUSH
1994, September 10, 4 p.m. (SECTION THREE).

(GRAY) FOR THE TREASURY.

The third measure is an arrêté defining prohibited and permitted operations and terms. Thereunder there are prohibited and without possibility of exception the following operations: (a) sale and production of foreign exchange by others than the foreign exchange office regardless whether these operations are carried out in France or abroad; (b) operations in foreign exchange or transfer between France and its overseas territories unless effected through the intermediary of the banks of issue of these territories by the accepted intermediaries either by draft checks, postal money orders, or telegraph. Special authority in each case must be obtained to acquire property abroad if the seller is a foreigner. Special permission is likewise required for the holding beyond a specified period of foreign exchange derived from merchandise exports or in payment of services rendered abroad. Included among the operations which are permitted upon verification without special authority are: (a) "the purchase of foreign currencies by the office of foreign exchange..."
exchange for the payment of foreign merchandise imported into France" the conditions under which "permits are requested and the proof furnished are set forth in decree regulating imports and export. (b) "Purchase of foreign currencies by the office of foreign exchange for the payment of all debts abroad if the debt derives from undertakings or facts of any nature prior to the present date or "if a general authorization has been granted by the foreign exchange office at the moment when the debt is contracted." The applications are to be presented for each operation to the office of foreign exchange on a specified form to which are to be attached the necessary proofs.

"(c) Acquisition of property abroad negotiated in France on condition that the seller is considered to be French. The purchaser and the intermediary or intermediaries must justify to the satisfaction of the competent authorities that the seller is a person considered French or that the purchase (if securities are in question) has been carried on the Bourse". (f) The purchase of property clandestinely abroad under the category of reinvestment". The purchaser must prove to the satisfaction of the competent authorities that the operation constitutes reinvestment of property abroad which belonged to him prior to the present date. (g) The sale in France of foreign securities. Proof must be furnished by
the seller to the exchange broker prior to the sale that he is a person considered to be French.

The fourth measure is an arrêté relating to "intermediaries in exchange operations" namely banking establishments and exchange brokers specifically authorized by the Minister of Finance. It stipulates notably that clients may continue to deal with their usual bank whether or not approved by the Minister but that all exchange operations must be presented to the exchange office by an authorized bank. Detailed instructions are given relating to information to be required from clients, records that must be kept of transactions, etcetera.

The fifth measure is an arrêté with respect to customs supervision. It provides that upon leaving French territory all persons must declare means of payment, securities and "documents of ownership or of credit" et cetera carried.

Persons of whatever nationality residing habitually in France may not take with them means of payment, securities and "documents of ownership or of credit" unless they possess a special authorization from the foreign exchange office.

Except as provided in transitory provisions and unless provided with special authorization of the exchange office persons who habitually reside outside of France may...
LAR-4, 1894, September 10, 4 p.m. from Paris (SECTION THREE)

may take out of France only "means of payment" for an
amount not greater than the "means of payment" which they
can prove to have brought into France. They may not
carry out securities or "documents of ownership or of
credit" unless specially authorized by the exchange
office.

Temporarily persons of whatever nationality habitually residing abroad finding themselves on French territory at present date may carry out without proof "means of pay-
ment" up to an amount not exceeding 5000 francs. If they
can prove that they possessed "means of payment" in French
territory in excess of 5000 francs at this date they may
be authorized to carry out "means of payment" for the
amount thus proved within this time limit which may not
exceed six months dating from the time limit of their
arrival in France.

Declarations must be made that they do not carry gold
in any form (ingots, bars and coins). Any import or
export of gold and any attempt to import or export without
the authorization of the Bank of France will give rise
to the sanctions provided for in the law and to seizure of
the gold.

The full text of these measures and accompanying
forms will go forward by the next pouch. (END GRAY).
We are told by Couve de Murville that no steps are being taken just now with regard to the requisition of foreign property owned by French nationals.

END OF MESSAGE.

BULLITT.
The French Government last evening approved a law and accompanying decrees prohibiting the export of capital and setting up a complete system of exchange control under the supervision of the Bank of France. We shall cable a full summary of this legislation this afternoon. We were called to the Finance Ministry this noon and handed a message for the Secretary (which we have just read to him on the telephone) from Paul Reynaud, Minister of Finance. That message which is dated September 10 reads as follows in translation:

(END SECTION ONE).
Secretary of State
Washington

RUSH:
1802, September 10, 2 p.m. (SECTION TWO).

"Taking advantage of the week-end and in conformity with the plan established, the French Government is promulgating today, September 10, 1939, legislation setting up a system of exchange control in France and in French territories overseas. This measure imposed by the war is motivated by the need to devote in the future all resources of the country to the financing of its defense.

The French Government remembers with deep appreciation that the Government of the United States has kindly assured it of its friendly collaboration in connection with the application of the regime which has just been established."

BULLITT

KLP
Secretary of State
Washington

RUSH
1892, September 10, 2 p.m. (SECTION THREE)

We also saw Rueff who has just been named Under Governor of the Bank of France. He told us that this appointment which may be temporary is to enable him to devote his entire time to setting up the mechanism for putting into operation the exchange control measures. His place at the Finance Ministry for the time being will be taken by Boutillier. Couve de Murville at his own request will be mobilized on the first of October.

(END MESSAGE)

KLP

BULLITT
WESTERN UNION

FROM: D B FORD BEACON NY 10 756A
TO: KLOTZ=

THE TREASURY DEPT WASHDC=

WASHINGTON MONDAY MORNING WITH THE BOSS BEST REGARDS=
HENRY MORGANTHAU JR.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE
WESTERN UNION
TELEGRAM

Sorry I spend by
must do not need more.
Secretary of State,
Washington.

1939, September 10, 10 p.m.

FOR THE TREASURY.

We have just listened to the brief and stirring appeal broadcast by Reynaud. The following summary is based on our hastily scribbled notes.

The war he said will be won by the side which produces the most and consumes the least. All must work to produce the utmost - no slackers. But in spite of all efforts production will inevitably and materially decrease. Therefore the counterpart is the reduction of consumption to a minimum. There must be no needless waste to add to the terrible waste of war. Foreign imports must be confined to war necessities. Every ounce of France's gold must be preserved for necessary war purchases abroad. Nor can there be any exports which will help the enemy.

(END OF SECTION ONE).

BULLITT

EMB
1898, September 10, 10 p.m. (SECTION TWO).

Steps have been taken to prevent war profits going into the pockets of arms manufacturers as happened during the last war; the salaried employee has had his taxes doubled; the workman in munitions factories has now to bear his share.

The next step is exchange control which was decreed by the Government and signed by President Lebrun last night. France has had ten months of a sound liberal economy which has brought massive returns of capital. But while liberty in peace and after the victory is a sound country’s strength, it would mean weakness in war. In speculation against the country’s currency can be permitted. The measures which have now been promulgated have long been prepared—far well over three months. Today the dossier was opened and all that was necessary was the despatch of telegrams throughout the country putting these measures into immediate effect.

BULLITT
Secretary of State,

Washington.

1938, September 10, 10 p.m. (SECTION THREE).

They mean, said Reynaud, that the private individual cannot buy foreign exchange for which the Bank of France has been given a monopoly. The counterpart is the rigidly established control of internal prices. No speculation is now permitted on foreign exchange and none is permitted on internal prices. The country's savings will go into armament bonds and Treasury notes and with these the war will be financed.

In conclusion he brought a message of hope and offered his complete confidence in victory. November 11, 1918 had clearly proved French superiority and that superiority was greater today. "We shall win because we are the strongest". (END OF MESSAGE).

BULLITT
MEMORANDUM FOR MISS CHAUNCEY

The attached is in compliance with your telephonic request of this afternoon.

[Signature]
Director of Procurement

(Referred to Pres. 9/1/39; see other transmitted)
MEMORANDUM FOR THE SECRETARY

In the memorandum pertaining to quinine it was indicated that the Netherland East Indies produced between 95% and 97% of the cinchona bark used in world trade.

The remaining 3% to 5% of cinchona bark available is inclusive of that produced in Peru which is of a relatively small quantity and of a very low grade, so low in fact, as to probably place it beyond competition with the cinchona bark and quinine sulphate manufactured by the Netherlands.

For this reason Peru was not mentioned as a source of supply in the memorandum previously submitted on quinine.

It was understood from Mr. Mercke of Mercke and Company at a conference at which he was present that his company is experimentally cultivating trees for the production of cinchona bark in Guatemala but that it will be from five to seven years before any production therefrom can be had or the success or failure of this experiment determined.

(Signed) H. E. Collins
Director of Procurement
RE PROPOSED STATEMENT TO PRESS
CONCERNING FRENCH MONETARY POLICY

September 11, 1939.
9:00 a.m.

Present:
Mr. Hanes
Mr. White
Mr. Foley
Mr. Cochrane
Mr. Bailie
Mrs. Klotz

H.M.Jr.: I will dictate this for the record. Saturday, on
      talking to Cochrane, I learned that the French
      for the first time had given us a price on gold.
      Then I asked him and he told me that knowing I
      had talked to the Bank of France and they told
      him...

Cochrane: We had a meeting the night before and preferred
      to send no data about a certain matter being
      discussed.

H.M.Jr.: Then I called up the President Saturday at 7:00
      o'clock and talked to him and told him the French
      had given us a rate, and he said, "Well, give out
      a statement on Monday showing that you are still
      in existence, that you are still doing business
      with Holland, Belgium and Switzerland," and he said,
      "Make it look as good as possible." I said, "Don't
      give the Germans anything to hang their hat on,"
      and he said, "That is right."

      Then Sunday I called Bullitt and asked him if he
      had heard anything and he said that he wanted to see
      the men of the French Treasury and as soon as he came
      back he wanted to call me, and he did. He said he
      had all the regulations.

      I spoke to Knoke again by appointment at a quarter
      of one on Saturday and asked to have a document
      ready for us this morning to take a look at. That
      is my story, now. Have you got the document?

White: Yes, we called Ed last night to help.

H.M.Jr.: Where is it?

Foley: You (Mr. White) have got it.
White: I haven't the original.
Foley: I haven't the original, either.
Cochrane: Here is the original.
White: There is an alternative draft.
H.M.,Jr: Shall I read this out loud for the benefit of those who haven't - I am reading this one?
Cochrane: That is right.
H.M.,Jr: "The Secretary of the Treasury thanks the Minister of Finance for his communication in regard to legislation for setting up a system of exchange control in France and in French territories overseas, and has pleasure in providing herewith the text of a statement which he is releasing to the press today:

'This Government was advised by the Minister of Finance of France of the plan for setting up a system of exchange control in France and in French territories overseas.

'We recognize that the exigencies of war require that French resources be safeguarded for the national defense and the need under such circumstances for exchange controls to promote stability of exchange rates.

'We are satisfied that the monetary steps taken by France in the present emergency are not motivated by a desire to obtain an unreasonable competitive exchange advantage. We sincerely hope that the Tripartite Accord may continue to provide a satisfactory basis of monetary cooperation in war times as in peace and provide, with the cessation of war conditions, the means for reexamination of currency relationships."

I would say at first it looks very good. Who has had a chance to chew on this?

White: Nobody has except Jack looked at it for a minute, but nobody else has had it. There are a couple of points before they go in with that, that we would like to raise for their consideration. One
is, that Bernstein has the feeling that possibly it may not be a matter of desired policy at this stage of the game for you to make a statement which has the implication and the connotation of a pretty strong cooperation with France and England, this being the first time the statement would be made since the war started, and it is contained in the last sentence, and therefore we have a more innocuous last sentence as an alternative.

E.K.Jr: What is the last sentence?

White: The last sentence is, "We sincerely hope that the Tripartite Accord may continue to provide a satisfactory basis in war times as in peace."

E.K.Jr: I see. This is the alternative?

White: That is the alternative.

E.K.Jr: I will tell you what I will do. I will call Mr. Hull's office and ask him to send Herbert Feis over here, see, and then you people go into a huddle. You needn't bother with my 9:30 meeting which is straight Treasury stuff, and you can chew it over. When you have got something that looks good, come back and Johnny and I will take a look at it.

Hanes: He is coming at 11:00 o'clock.

E.M.Jr: I want to read it before I release it to Bill Bullitt and let him take it over to the Minister of Finance in France and let him see it.

White: There is nothing said here of Holland and of Belgium, but it is pretty difficult.

E.M.Jr: I'm not going into fine shadations. That is the advantage of having you people here. If you fellows can get together and give us something, why then bring it in and we will take a look at it. I don't know whether you want to sit with them or not. I don't.

Hanes: I don't think so.
I would much rather you would stay with the nine thirty and do the regular Treasury business.

I would rather do that.

Let me just get hold of - what room will you meet in?

Probably 295 because there is a big table there with plenty of seats around it.

Is this the way you gentlemen would like to work?

I think we can discuss that later after we see how this one works out.

That is a good example.

Could we go out now to 295, or do you want us to wait?

No, you can go out now and then the minute you people are ready to see me, would you let Mrs. Klotz know?

You (Mr. Foley) stay on the regular meeting.

And Bernstein will go with them.
NAVY DEPARTMENT
BUREAU OF NAVIGATION
WASHINGTON, D. C.
1366

To: The Chief of the Bureau of Navigation.

The Captain
William D. Puleston, U.S.N. (Ret.),
2434 Belmont Road,
Washington, D. C.

Subject: To duty - Treasury Department.

1. You will report to the Secretary of the Treasury, Treasury Department, Washington, D. C., for such duty as may be assigned you.

2. The Secretary of the Navy has determined that this employment on shore duty is required by the public interests.

3. The above assignment is subject to your consent.

[Signature]

Ordered this date. Treasury Department, Washington, D.C., 11 Sep 1939

[Signature]

Secretary of the Treasury

To:
Secretary of the Treasury,
Treasury Dept.,
Washington, D. C.
MEMORANDUM FOR — The Secretary of the Treasury

With reference to our telephone conversation the other day, regarding reports of movements of Merchant ships by lightships, upon further study I have cancelled the instructions to lightships to report such movements. It is obvious that such reports would seriously endanger Merchant ships of belligerent nations by disclosing their location to enemy warships (including submarines) and, even if such reports were made in code, such danger would not be eliminated.

Also, neutral shipping suspected of carrying contraband of war might likewise be endangered by radio reports.

We have instructed our District Commanders to keep current information regarding the location of all Merchant shipping by getting reports from Coast Guard Stations and Light Stations along the coast, by telephone or means other than radio, and by contacting shipping offices, Custom Houses, etc.

Please advise me if this meets with your approval.

R. R. WAESCHE
Rear Admiral, U.S. Coast Guard, Commandant.
My dear Mr. Secretary:

I have received your letter of September eleventh and hasten to reply that, having seen Ambassador Kennedy's telegram No. 1500, addressed to the Secretary of the Treasury, I cabled him that, by instruction of the President, on September fifth I told the British and French Ambassadors that the proposal in question was to be considered by the British and French Governments as not having been made.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.
September 11, 1939, 11:15 a.m.

RE PROPOSED STATEMENT TO PRESS
CONCERNING FRENCH MONETARY POLICY

Present: Mr. Bailie
         Mr. Viner
         Mr. White
         Mr. Bernstein
         Mr. Duffield
         Mr. Riefler
         Mr. Lochhead

Bailie: There is one thing that bothers us in the communication that the French sent us, one paragraph. "The French Government remembers with deep appreciation that the Government of the United States has kindly assured us of its friendly cooperation in connection with the application of the regime which has just been established."

Now, we feel that that is a dangerous paragraph from your point of view.

H.M.Jr.: Read it again, please.

Bailie: "The French Government remembers with deep appreciation that the Government of the United States has kindly assured us of its friendly cooperation in connection with the application of the regime which has just been established."

That undoubtedly refers to the conversation of several months ago, but in the context which appears, it looks as if the United States had been working with France to work out their war problem on exchange and we feared the effect that might have on Holland and Belgium and Switzerland. It might make them feel that this thing was an un-neutral thing, which is the last thing we want them to think, so that our first suggestion is that by a telephone message we say to Mr. Bullitt that that paragraph be gotten out of any material that the French Government releases in this connection. Of course, if they didn't release anything, we'd like it best of all, but if they do want to release things, and I understand from Mr. Cochrane that they are rather accustomed to doing so, we don't want that paragraph in it.
Now, our second point is that....

H.M.Jr: Leroy-Beaulieu is outside. Couldn't he do it?
Bailie: Very possibly so. You will know the best way.
H.M.Jr: What do you think?
Cochrane: If you were going to phone him....
H.M.Jr: I am not. I want to save my time.
Cochrane: We can get him to do it.
H.M.Jr: Wouldn't that save my time?
Cochrane: Sure, let him phone any message.
H.M.Jr: Sure, that just saves my sitting here for two hours trying to get hold of Bullitt.
Bailie: The second point we want to make is we think that short form of statement will cause an isolationist to have less material to talk about than he would if we came out and said, "We are trying to help France win the war by helping out through this agreement."

Now, our third point is that so far as France is concerned, why, we know she has to do this and we think what she has done is entirely reasonable, but we don't particularly want to congratulate her on putting in exchange control because we don't think the Tripartite Agreement was made as a background for exchange control to operate. It is just one of the misfortunes of war that it has to be and the result is a rather colorless statement, but we think it is friendly.

I think everyone thought that each one was done a little bit different and I think Harry has a little feeling that there isn't much punch left in it, but the rest of us felt that the dangers from the punch were too great.

White: I think on the whole one can afford to be cautious at this stage of the game and say less than what you might think.
That is what the President has told me on two different occasions. He says he has used more weasel words in the last two weeks than in the last seven years. I think we can all use weasel words at the present time.

We can increase the strength later.

We used rather short language in talking to the British the day after they did their business and we would like to be wholesome to the French.

It is all right with me.

I think in asking the French not to make public that statement, it had better be made clear to them that the reason why is that the public may read into it something other because we don’t want to deny the position we have taken with respect to that.

I told Leroy-Beaulieu that you fellows would like to handle him from the first of October. He is your baby. I think if you just tell him this and give him a copy of this thing and then I think Bullitt can see that a copy - then see that a copy of this be sent immediately on the wire to Bullitt,

And that he also be told about this request so that he knows about it, because they may ask him on the other side.

I don’t think so.

You instructed us, Mr. Secretary, on how to handle the State Department in this connection because Mr. Feis wants to be notified at once.

I think so that we get this thing on this sort of thing from now on, Cochrane will get these messages to Feis and get them over there. He is the logical person to do it. Bullitt should have a cable.

Let the State Department decide that, I suppose, as to what they will tell Bullitt. Feis knows about it. That is all that is necessary. Feis should know that we are going to talk to the...
Failie: Feis knows that we do not wish to have in cable or written form our request to change their records.

E.M.Jr: I don't want that. I think it should be word of mouth. I don't want it in the record that we say to Bullitt to say so and so. I don't think it is nice.

White: I would like to raise the question whether it is necessary even to mention it.

Failie: Here is a rather polite phrase, for instance, "We transmit your message," which is the same as it was in the previous one.

E.M.Jr: That is right.

Riehler: What about notifying the other members?

Failie: We would normally like to tell the other members what we have done, so we would like to do that.

E.M.Jr: I don't want it put in the record that I don't want the French to say publicly that we have been recommending for over a year that they should put on exchange control. I don't see any sense in that. Leroy-Beaulieu will do that. He is a good fellow. Just so it is orderly. I mean if Cochrane will talk to Leroy. Feis says they are leaving Friday from Panama. He has got to have an answer on this thing.

Failie: We are meeting right after lunch.

E.M.Jr: The earliest I could do would be tomorrow morning. Shall we say 10:30? Will you tell Cochrane?

Failie: Yes.

Shall we say 2:30 in 296 or if we move downstairs wherever we can have a meeting room?

E.M.Jr: That isn't rushing you too much?

Viner: No, we have to start on that.

E.M.Jr: But you will tell Cochrane? You know about it, Harry?
White: Yes, I know about it.

E.H. Jr: Does Cochran fit in on that or not?

Bailie: Yes.

E.H. Jr: I am going to forget about this and you will see that Duffield has something for me at 4:00 o'clock to give the press.

Bailie: Yes.

White: Just one point. The increasing volume of transactions by foreigners being made under domestic trusteeship and the Federal Reserve Bank is going to ask their various member banks for a little more information. I am just letting you know in case you get some repercussion on it.

E.H. Jr: What is happening which I haven't been able to get to the bottom of yet, I don't understand the significance, but they are meeting in Hanes's office now - Hanes, Berle and somebody from Commerce - on this question from the banks, what they should or shouldn't do. When they are ready they are going to give me a report. Before I do anything on it, I am going to show it to you people. I can't see the fact that everybody is pushing me so hard; I wonder why. I can't see the sweat about it. So before I do anything - I am trying to work it, that these things feed to me. Before I act, you people get a chance to see it and get all the time necessary. I'm not going to be rushed off my feet.

Bailie: We can't give you a worthwhile policy before 4:00 o'clock.

E.H. Jr: I don't see why there has to be a press release at 4:00 unless it is just to say they met. Just so you know anything of policy. Unless I get caught off base, I am not going to say yes or no. Unless I get caught off base, I would like to work this way and ease it in and I will try not to rush too much with these things. I don't know what this thing is in Hanes's office. You will find out and take a look at it.
Bailie: We have another thing which is right along the line which Hanes is talking about and there is some evidence that British securities are being released on the New York Stock Exchange with the permission of the Treasury for gradual liquidation. We have got to find out if the SEC knows about it.

White: There is no indication of that in the report.

Bailie: That is the reason I spent Friday in New York and I found four separate transactions totalling three million dollars in the course of a half hour of questioning of various people, which showed that actually British securities were being released by the British Treasury and sold in our markets.

Lockhead: We got that check.

H.K. Jr: Having you people here, I will stay calm and not try to do all these things by myself.

Bailie: None of them, as I see it, have been terribly excited or worried at this moment.

H.K. Jr: No, but you could say the wrong thing to the French. The next thing is Panama unless this other thing breaks. I don't know - when that thing breaks, I will get hold of it and find out what it is. I think the Panama thing comes first.

Bailie: I think so too. Of course, we could let them go on to Panama and send them a message.
TO: Secretary Morgenthau
FROM: Mr. Haas
SUBJECT: Developments in the High-grade Securities Markets During the Week Following the Outbreak of War

SUMMARY

(1) United States securities declined very sharply on Tuesday and Wednesday, and slightly more during the balance of the week. Except for the break at the time of the Munich crisis, the average yield on long-term Treasury bonds (2.59 percent) is now the highest since April 1938 (Charts I and II). Shorter- and medium-term bonds have been relatively weaker than long-term bonds (Charts III and IV).

(2) Official support was given to the Government bond market during the past week through the purchase of securities by the Federal Reserve banks ($204 million) and the Treasury ($50 million). The Federal Reserve purchases more than replaced the bills allowed to run off during the summer and brought the portfolio to a new high (Chart V).

(3) The high-grade corporate bond market was very weak on Tuesday, and the spreads between bid and ask prices were very large. As the week progressed, however, spreads narrowed and some of the losses were made up. At the close on Saturday, our average of the yields of long-term high-grade corporate bonds was 3.27 percent, and the spread between the yield of corporate bonds and long-term Treasury bonds was .68 percent (Charts I and II).

(4) British consols closed at 62 on Thursday (the day the London Stock Exchange was reopened), and at 62-1/4 on Friday. The Friday price was equivalent to a yield of 4.02 percent. These prices are subject to the reservation that the London Exchange is not a free market; the prices on Thursday and Friday were at approximately the minimum set by the Exchange. French 3 percent rentes declined further during the week to new lows since the spring of 1938. The yield on Friday was 4.35 percent.
I. Price Movement of United States Securities

United States securities declined very sharply on Tuesday and Wednesday, approximately held their own on Thursday and Friday, and then declined somewhat further on Saturday (Chart I). The average yield on all long-term Treasury bonds increased by .19 percent during the week to 2.59 percent at the close on Saturday. This is the highest yield since September 28, 1938, the first day of the recovery from the break in the market at the time of the Munich crisis; and, aside from the break at that time, the highest since April 1938, immediately following the desterilization of the inactive gold. It is lower, however, than the average had ever been prior to that time, except for a few months immediately preceding the 1937 break (Chart II).

Daily fluctuations since the beginning of July in the prices and yields of four selected Government securities are shown in Chart III. It will be noted that the 2-3/4's of 1960-65 have declined only about 6 points, while the 2's of 1947 have declined about 5 points. The yield on the 2's of 1947 has advanced by 0.64 percent during the same period, while that on the 2-3/4's of 1960-65 has advanced only 0.36 percent. The shorter-term bonds have thus failed notably in the present break to furnish to their holders the substantially greater measure of protection against price decline (as compared with that afforded by longer-term bonds) for which they had hoped. This has been true in previous sharp declines in the market. Whether it would prove true during a more extended decline is doubtful.

Chart IV compares the yields of Treasury securities on April 1, 1937, June 5, 1939, and September 9, 1939. The first date is the bottom of the trough of the 1937 break, and the second is the 1939 high. The chart shows that since June the securities have lost roughly two-thirds of their gains from the bottom of the 1937 break until that time. It also shows that the present relationship between the yields and maturities of both the bonds and notes is much more similar to that at the bottom in 1937 than it is to that at the high of last June. The present break, like that of 1937, has reduced the spread between the yields of securities of different maturities and has thus produced a somewhat flatter curve.
II. Official Support Given the Government Bond Market

The Federal Reserve banks purchased $204 millions of Government securities in the open market during the week ended Saturday, September 9 (Chart V). For a large part of the week these banks were the principal or only bidders in the Government securities market. Although they were still continuing to increase their portfolio at the week-end, the increases were much smaller than the earlier additions, as the banks curtailed the volume of their purchases as soon as the market appeared to have stabilized itself at its lowered level. (Purchases on Thursday amounted to only $8 millions and on Saturday to $16 millions; no purchases were made on Friday.)

Nearly all of the securities acquired during the week’s operations were bonds, the Federal Reserve System having been the principal market for such offerings. These purchases were in contrast to those of the preceding week, when note acquisitions amounted to nearly half of the increase in the banks’ portfolio of Government securities. Some outside buying interest for short-term securities had shown itself early in the week, however -- particularly for issues maturing within two years -- and the Federal Reserve banks avoided these issues.

Considerable newspaper comment was occasioned during the week when it became known that the Federal Reserve banks had deferred until Friday the delivery of some of their Tuesday purchases of Governments. These securities would ordinarily have been delivered on Wednesday and would have been included in the figures on the regular Wednesday condition statement. The procedure followed prevented the published figures from indicating the full extent of the official support to the market during this part of the crisis period. Figures for Chart V have been adjusted to add into the current Wednesday and Saturday figures all purchases actually made through to the close of business on each of these days, whether or not delivery had actually been affected.

Open-market purchases during the week brought the Federal Reserve banks’ portfolio to a new high level — $2,756 millions. The operations of the last ten days have more than offset the decline in the banks’ portfolio occasioned by the run-off in their holdings of Treasury bills in June, July, and August (Chart V). They have lengthened the average
maturity of the banks' holdings considerably, moreover, and have added guaranteed securities to a portfolio which had previously been confined to direct obligations only.

The Treasury purchased some $50 millions of Governments for its investment accounts during the week. These purchases brought net acquisitions since September 1, to a higher level than net acquisitions have reached in any month since March 1937.

Member bank holdings of Government securities appear to have declined only moderately as a result of the crisis, partly as the result of the informal agreement not to liquidate holdings negotiated by the Federal Reserve Bank of New York with the New York banks. These banks extended the effect of the agreement, it was reported, by advising their correspondents to do likewise. In the week ended September 6 - when long-term bonds dropped four points on the average - reporting member banks in New York City reduced their holdings of direct Government securities by only $8 millions; and Chicago banks reduced their holdings by only $18 millions. Greater declines in the holdings of guaranteed issues were reported, but these reflected, to a large extent, the retirement on September 1 of $100 millions of 1-1/2 percent FFMC bonds maturing on that date.

An interesting sidelight on the Government market during the week was provided by the rapid sky-rocketing of bond trading on the New York Stock Exchange to $71 millions -- an all-time high -- on Wednesday. This was due to two factors: (1) Dealers who would have otherwise used the over-the-counter market desired to avoid disclosing the names of large sellers of Government securities as requested by Federal Reserve officials; and (2) the Reserve banks themselves conducted a large share of their own operations on the Exchange. With the relaxing of the disclosure rules, and the decline in official operations, the volume on the Stock Exchange immediately dropped to much lower levels -- $6 millions on Friday.

III. High-Grade Corporate Bonds

High-grade corporate bonds suffered considerably more during the past week than Treasury bonds, a condition which is doubtless explained by the fact that the corporate bond market was not receiving official support. In the early
part of the week, there was virtually no market in high-grade corporate issues, and spreads between bid and ask prices became very large. At the close on Tuesday, for example, the Pennsylvania Railroad 4-1/2's of 1960 were quoted over the counter at 107-1/2 bid and 117-3/4 ask, and the New England Telephone and Telegraph 4-1/2's of 1961, at 111 to 123-3/4. In the latter part of the week, however, spreads narrowed, and the corporate bond market recovered some of its earlier losses.

Our average of the yields of long-term high-grade corporate bonds reached 3.41 percent on Tuesday, the highest it has been since the spring of 1937. It was unchanged on Wednesday, and thereafter decreased day by day to 3.27 percent on Saturday. This is approximately the same level as in the first week in April 1938, immediately preceding the announcement of the deflation program (Charts I and II).

On Tuesday, the spread between the yield on long-term Treasury and high-grade corporate bonds was .94 percent, the highest in approximately 5-1/2 years. This spread was reduced steadily during the remainder of the week, as corporate bonds gained strength, while Treasury bonds continued to decline. At the close on Saturday, the spread was .68 percent.

The most probable explanation for the contrasting behavior of corporate and Treasury bonds during the week lies in the fact that the former, having no official support, absorbed at once the full immediate shock of the beginning of the war, and rapidly fell to a bottom from which they were able to rebound; whereas Treasury bonds absorbed the shock only gradually, as official support permitted.

IV. British and French Markets

The London Stock Exchange reopened on Thursday, and it was reported that the undertone of the market was steady to firm. The 2-1/2 percent consols closed at 62, as compared with 64-3/4 on August 31, the last day before the Exchange was closed. On Friday, consols closed at 62-1/4, equivalent to a yield basis of 4.02 percent. These prices are, of course, subject to the reservation that since August 24, the London Stock Exchange has not been a free market. The minimum price set for the 2-1/2 percent consols is reported
to be 62-1/2, and the fact that prices have actually dropped below this point may be explained by the fact that Wednesday marked the "ex-interest" day for consols. This would account for a difference of 5/8 of a point.

The past week has shown little change in the money market in London. Call money against bills remained at around 2-1/2 percent, and six-months bills at 5 percent. Three-months British Treasury bills sold Friday at 3.6 percent, as compared with 3.7 percent the week before.

French 3 percent rentes have declined further during the week. The closing price on Friday was 69.0, as compared with 71.5 last Friday, a yield increase from 4.20 percent to 4.35 percent. This brings this issue back to approximately the level of the spring of 1938.

The weekly statements of the Bank of England and the Bank of France, released Thursday, show record circulation of notes in both countries. In the two weeks since August 24, the circulation of the Bank of England increased 8.2 percent, and that of the Bank of France 15.6 percent.

During the past week, the Bank of England transferred all of its gold holdings (reported at £264 millions last week) to the Exchange Equalization Fund. On Sunday (September 10), France adopted exchange control, prohibiting the exportation of capital in any form without the authorization of the Ministry of Finance.

Attachments.
Chart I

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

WEEKLY: Wednesday Quotations

- Long Term Treasury* (16 years or more to mature until date)
- Corporate

*Note: line indicates change in composition of Long Term Treasury average.
Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS

Monthly Average of Daily Figures

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Long Term Treasury

High Grade Corporate

Latest figures as of Sept. 9

Moody's Aaa

Spread

Regraded Unclassified
Referring to Department's telegram of September 9, 11 a.m., defence (monetary control) regulations issued August 25 give Commonwealth Treasurer complete control over all foreign exchange operations. Full information transmitted in my dispatch number 527 of August 31. Delivery of all gold to Commonwealth Treasury within one month required. Subject to exemptions granted by the Treasurer the regulations provide for very drastic exchange control including sale to Commonwealth Treasurer of all foreign currency assets. This last mentioned provision not yet put into effect. The Prime Minister stated that an effort would be made to cause minimum dislocation of trade consistent with the national interests. Control is being exercised by Commonwealth Bank and as its agents by trading banks. Am assured by high official of the Commonwealth Bank that regulations have been promulgated and for the present are being administered.
-2- September 11, 6 p.m., from Sydney

ministered with the primary object of preventing flight of capital outside of Australia and that every effort will be made to avoid interference with normal (repeat normal) trade. Business firms consulted report that banks are selling United States dollar exchange for usual requirements but refuse to make future commitments.

It appears probable that some form of restriction of imports based on essential requirements of Australia may be anticipated and any expansion of American exports to Australia would be subject to this principle.

Other developments are:

(1) Australia - London exchange rate remains unchanged, but that Australian pound declines proportionately with London - New York rate.

(2) Arrangements have been made for purchase by Great Britain of all surpluses over Australian requirements of most primary products including wool, canned and dried fruits, meat, butter, et cetera. No announcement yet regarding wheat.

(3) Increase in shipping freights inward and outward of 25% have been announced and overseas sailings restricted by reason of Admiralty control.

(4) Commonwealth Government has announced intention to
September 11, 6 p.m., from Sydney

to control prices of its commodities, including petroleum products and tractors in connection with anti profiteering program.

(5) Sales tax increased by one percent. Effective September 9 increases in duties on a number of items including gasoline 1 penny per gallon, mineral lubricating oil 3 pence and on tariff item 404 increased from free to 15 percent British preferential and from 10 to 50 percent general.

(6) Company income tax rate increased from 5.75 to 8.25 percent and rebate formerly granted to foreign holding companies in the amount of such tax paid by Australian incorporated subsidiaries now abolished. This means double taxation on income received by American holding companies, but non Australian companies operating in Australia on purely branch office basis not affected.

WILSON

CSB
Mr. Cariguel called at 1 o'clock today. As I had undoubtedly learned from the papers, he said, there was now exchange control in France. They had started at 176.50 buyers of sterling and 176.75 sellers and he thought that those rates would remain unchanged for some time to come.

I asked whether he could give me some details as to how this thing was going to work in Paris and he said that it would probably be some days before the machinery was properly set up. Would we get any orders from him by cable? He replied, "No".

I again repeated my request that he send me by airmail everything that had been and was going to be published in the way of decrees, regulations, etc.
September 11, 1939

My dear Mr. Secretary:

In order that I may answer
Ambassador Kennedy’s cable #1500,
I would appreciate your letting me
have a copy of the Department’s
answer to his message.

Sincerely yours,

The Honorable
The Secretary of State.
My dear Mr. Secretary:

In order that I may answer Ambassador Kennedy's cable #1800, I would appreciate your letting me have a copy of the Department's answer to his message.

Sincerely yours,

The Honorable
The Secretary of State.
September 11, 1939

My dear Mr. Secretary:

In order that I may answer Ambassador Kennedy's cable #1500, I would appreciate your letting me have a copy of the Department's answer to his message.

Sincerely yours,

The Honorable
The Secretary of State.
Secretary of State
Washington

1939, September 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Bewley confirms that the declaration of war has not changed the procedure with respect to foreign securities as outlined in my 1344 September 1, 1 p.m. Permission is being granted for transfers between residents in the United Kingdom and also for sales abroad if the resulting foreign currency is handed over to the Bank of England, the amount of business in the former is less than in the latter. S.E.C. no doubt has information as to how extensive the latter transactions are and Neff who is here would appreciate it if a copy of this telegram could be given to Purcell. Incidentally Bewley mentioned that they were actively considering what could be worked out in the matter of Americans "resident" in England.

KENNEDY

CSB

RECEIVED

201

PLAIN

LONDON

Dated September 11, 1939

Rec'd 3:30 p.m.
TELEGRAM SENT

GRAY

September 11, 1939

7 p.m.

AMERICAN EMBASSY
PARIS

870.

FOR THE AMBASSADOR FROM THE TREASURY.

Reference your 1892 September 10, 2 p.m. The Secretary of the Treasury has this noon handed the following statement to the French Financial Attaché LeRoy Beaury for communication by telephone to Minister of Finance Reynaud:

The Secretary of the Treasury thanks the Minister of Finance for his communication in regard to legislation for setting up a system of exchange control in France and in French territories overseas, and has the pleasure in providing herewith the text of a statement which he is releasing to the press today:

Q'TE. The Secretary of the Treasury stated that he had been advised by the Minister of Finance of France of the emergency action of the French Government in setting up a system of exchange control in France and in French territories overseas. The Secretary said that the United States Government recognized the emergency conditions which impelled this action, and stated that the Tri-

Partite

Regraded Unclassified
RPP -2- #870, September 11, 7 p.m. to Paris

Partite declaration continues in effect. END QUOTE

The above statement will be made public in Washington at 4 o'clock this afternoon Washington time.

HULL

(HP)

EA: HF: LHW
TELEGRAM SENT

GRAY
September 11, 1939
9 p.m.

AMERICAN EMBASSY
LONDON

911.

FOR THE AMBASSADOR FROM THE TREASURY.

There is quoted for your information and that of
the Chancellor of the Exchequer of Great Britain, the
following communication which will be released to the
press here at 4 p.m. Washington time.

QUOTE. The Secretary of the Treasury stated that
he had been advised by the Minister of Finance of France
of the emergency action of the French Government in set-
ting up a system of exchange control in France and in
French territories overseas. The Secretary said that
the United States Government recognized the emergency
conditions which impelled this action, and stated that
the Tri-Partite declaration continues in effect.

END QUOTE.

EA:MF:INW
SAME TO:
AMERICAN EMBASSY, BRUSSELS, as No. 58, September 11,
8 p.m., substituting "Minister of Finance of Belgium"
for "Chancellor of the Exchequer of Great Britain".

AMERICAN LEGATION, BERNE, as No. 74, September 11, 8
p.m., FOR THE MINISTER...(substituting "Minister of
Finance of Switzerland")

AMERICAN LEGATION, THE HAGUE, as No. 84, September 11,
8 p.m., FOR THE MINISTER...(substituting "Minister of
Finance of the Netherlands")
Secretary of State,
Washington.

1907, September 11, 6 p.m.

FOR THE TREASURY.

Confusion inherent in the sudden application of complete exchange control has naturally continued throughout the day. The foreign exchange office has quoted a selling rate for sterling of 176.50 and a buying rate of 176.60. The dollar has been quoted at 43.70 and 43.95. The foreign exchange office was a seller of dollars in payment for war supply purchases. While the "approved" French banks did some exchange business American and other foreign banks remained out of the market and are as yet unable to obtain definite rulings from the authorities covering their procedure or their future status. They naturally would prefer dealing directly with the Bank of France rather than through the French banks "the better to protect their clients" and are hopeful that they may subsequently be put on the "approved" list. They well realize, however, that France is at war and are prepared to adapt themselves accordingly.

The Guaranty Trust did execute several foreign exchange transactions directly with the Bank of France.
The transactions in question, however, were carefully scrutinized and will be carried in the Bank of France daily record. There is no indication, however, that this procedure will be permitted as a general rule.

The securities exchange was open as usual but the turnover was small. The tone was calm and firm, industrials, utilities and banks registered advances over Friday's quotations. Rentes were down slightly with the exception of the dollar exchange guaranty issue of 1937 which again improved.

BULLITT

CSA

Regraded Unclassified
Secretary of State
Washington

RUSH
1899, September 11, 11 a.m.

FOR THE TREASURY

Our telegram 1899, September 10, 4 a.m., was based on a pamphlet text given us at the Finance Ministry. Comparison with the texts published in the Journal Official appearing this morning indicates no change of any importance. The "law prohibiting or regulating in time of war the export of capital, exchange operations and transactions in gold" is however published in the form of a Presidential decree and an additional article provides that it shall be subject to ratification by Parliament as provided in the law of March 17, 1939.

The Journal Official likewise contains the text of an additional decree "regulating imports and exports in time of war". (END OF SECTION ONE)
Dated September 11, 1939
Rec’d 9:02 a.m.

Secretary of State,
Washington.

RUSH.
1899, September 11, 11 a.m. (SECTION TWO).

Under this decree all importations of foreign merchandise are subject to the prior obtaining of a certificate attesting that the delivery of foreign currency necessary to effect payment has been authorized or that the importation does not call for payment in foreign currency. When foreign currency is required it will only be delivered upon presentation of this certificate. As concerns exports if payment therefor is made totally or partially in foreign currency the exporter must undertake to turn such currencies over to the Exchange Office within one month after receipt. If payment is made totally or partially in francs the exporter must undertake to accept in payment only foreign holdings in francs the utilization of which for the purchase of French goods has been authorized beforehand by the Exchange Office. Exporters must provide the Exchange Office with all
-2- #1899, September 11, 11 a.m. (SEC. TWO) from Paris

all proof considered necessary by the latter regarding
the amount received by them in payment.

BULLITT

RR
PARAPHRASE OF SECTION FOUR OF TELEGRAM No. 1899 OF
SEPTEMBER 11, 1939, FROM PARIS.

No American or other foreign banks appear on the list
and our bank representatives here are still somewhat at sea
as to whether they must deal through one of the foregoing
institutions or whether they may deal directly with the
Bank of France.

There is some natural confusion as to how the new system
will operate but the situation will probably shake down with­
out undue delay. For the moment no rates are being quoted.

From all appearances transfers of foreign currency
deposits in France are covered by the exchange control restric­
tions, though it is the impression of our banks here that
a fairly liberal attitude regarding such holdings of foreigners
will be adopted by the authorities.

We have been told that the regulations in general
resemble those which were in effect during the World War
and afterwards.

END OF MESSAGE.

BULLITT.
September 11, 1939
9:12 a.m.

Cecil W. Gray:

Good morning, Mr. Secretary.

HM Jr:

How are you?

G:

Just fine, thank you, sir. I hope you are well.

HM Jr:

Would you give Mr. Feis this message for me?

G:

Yes.

HM Jr:

I mean, Mr. Hull.

G:

To -- to the Secretary?

HM Jr:

Yes.

G:

Right, sir.

HM Jr:

Or if you could do something before he comes in. We have this decree from the French Government.

G:

Yes, sir.

HM Jr:

Putting on exchange control.

G:

Yes, sir.

HM Jr:

My people are preparing an answer, see?

G:

Yes, sir.

HM Jr:

To the French.

G:

Yes, sir.

HM Jr:

And I would like to have Mr. Feis over here now to sit in with our people while we're doing the answer, you see?

G:

Right, sir. Are you meeting now, Mr. Secretary?

HM Jr:

We're meeting in room 296 right away.

G:

I'll get to work on it immediately.

HM Jr:

And -- we'd like to have -- nobody else would be of any use on this.
Right, sir.

And -- but in order that Mr. Hull may know and it would be agreeable to him, the answer, I'd like Mr. Feis to see it and help formulate the answer.

Hello?

Right -- right, Mr. Secretary. I'll endeavor to reach him immediately.

Thank you.

You're welcome, sir. Goodbye.
September 11, 1939
10:20 a.m.

HMJr: Hello.
Charles Edison: Hello.
HMJr: Edison?
E: Yeah. Good morning.
HMJr: Morgenthau.
E: Yeah.
HMJr: How are you?
E: O. K.
HMJr: Will you, at your convenience, see Captain Puleston for me? He's here in my office now.
E: Yes, surely.
HMJr: Could you give him an appointment?
E: Ah -- yeah. Wait a minute until I get -- wait 'til I get my dope sheet.
HMJr: Thank you.

(Brief pause.)

E: What does he want to see me about?
HMJr: Well, you remember I wrote you that note.
E: Yeah.
HMJr: And he's to come here and help me.
E: Yeah.
HMJr: And I cleared it with Captain Callaghan.
E: Yeah.
HMJr: And he -- Captain Callaghan said he cleared it with the Navy Department.
E: Well that's all taken care of.
Well, he just would like to pay his respects.

E: Oh yeah, sure. Well, that's fine.

HMJr: He'd like to pay his respects to you.

E: Oh, have him come in anytime. We'll -- wait a minute. I can see -- two -- yeah, have him come in anytime.

HMJr: Well then, he can come over now?

E: Yeah. I'll work him in.

HMJr: Thank you so much.

E: All right. Thank you.

HMJr: Goodbye.

E: Goodbye.
Operator: Go ahead.

HMJr: Hello.

Frank Boyce: Yeah. Hello, Mr. Secretary. Frank Boyce.

HMJr: Yes.

B: I got your telegram and I've looked at the apples and I think I've got bad news for you on the apples. The -- the apples are mostly green, immature; they haven't got enough color. And the apples that had -- there are about three boxes -- three or four apples in each box that have good color.....

HMJr: Yes.

B: ......and those apples, when you cut them they have brown centers.

HMJr: Yeah.

B: Now, I sent them up to the Department of Agriculture to -- up here at the build -- 641 Washington Street....

HMJr: Yeah.

B: ......to see just what is the trouble. I think it's drouth spots, what we call drouth spots.

HMJr: Yeah.

B: A condition that's -- arises during a dry period.

HMJr: Yeah.

B: And I just wonder if it's going to be general or if these apples came off of part of your orchard.....

HMJr: No.

B: ......that -- that's high.

HMJr: We knew about it and the trees were supposed to be marked and no apples that came off those trees were to go into those boxes. Those were my instructions.
Well, the -- the apples we got -- got here, there were about four or five with color in a box.

Yeah.

... and the rest are green.

Yeah.

And you couldn't sell them at all. And the apples -- I just accidentally cut one; I wanted to see what they tasted like.

Yeah.

And as I did why the entire center -- oh, for about an inch and a half of the center -- ah -- is solid brown color.

Yeah.

And I -- the pathologist up there at the Government office is -- to look at them. I called him right before I called you to see if he had gotten to them yet and he hadn't -- a fellow named Dr. Brown.

Yeah.

I'll have to give you a report a little later on him. Now, the -- the question is, is this condition going to exist only in high spots in the orchard, or...

No.

... ... will it be pretty general in the valley?

No, we had the Farm Bureau go all over it and it's just a few of those trees on the knolls and those are the ones they were picking first.

Oh, I see.

But none of them were supposed to get in. But I told them to -- very definitely not to, but I also told them to pick three boxes at random and send them down.

Well, he picked them at random all right because they're -- (chuckling) they're almost entirely green and they're immature. You couldn't -- you couldn't eat any of those apples at all. They're --
they're sour, and the seeds are -- are still a light -- light color.

Ew Jr: Well now, what do you suggest?
E: They've got no color at all.
Ew Jr: What do you suggest?
E: Well, I -- let me see what this report is and I -- I think if this is drought spot -- if it's something else besides drought spot, I'll give you their recommendation and......

Ew Jr: No......
E: ....I'm going to have my man go over there - Kaylin run over and just look the situation over and see if we can't work out something. Meantime, if he's going to have any apples and they're like the sample, why the only thing we could do would be to sell them through our jobbing store or you can give them to Stewart Hubbard or anybody like that to scatter the job out, see?

Ew Jr: Well, let me put it this way: If they're too hard to eat, we'd better put them into storage.
E: Oh well, you couldn't store these apples.
Ew Jr: Why not?
E: They're immature, they're green as grass, they -- they haven't any color. No, these apples are bruised and he has just picked the apples at random and just tossed them in the boxes. You know a McIntosh has to be handled with care.

Ew Jr: Oh.
E: No, you couldn't store these apples, I'm sure. The thing to do, if you've picked five hundred, - I -- I'm getting Kaylin and his assistant over there. They'll be over there within an hour or so; probably there now.
Ew Jr: Yeah.
B: To look the situation over, but meantime I think if you have four or five hundred, they ought to go right to some market and be sold.

E Jr.: Well, they'd be slaughtered.

B: Well sure, they'll be slaughtered, but these apples never -- never improve. They never improve in storage.

E Jr.: Well, I don't.....

B: Hasn't -- he hasn't graded these apples at all. He's been very careless in -- in the packing of these apples.

E Jr.: Well now, there's -- the other thing, what's his name is starting tomorrow to put up these two-pound boxes.

B: Oh, on the Cortland?

E Jr.: No, on the Macs.

B: Oh, yes. Two-pound on the Macs tomorrow?

E Jr.: Yeah.

B: Oh, well -- I think he's -- I think he's too soon. on that. Is the--- the State Grange man there?

E Jr.: The greens are in there. It's the same apples only put up in a two-pound box.

B: Well, these -- these apples are too green to pack, Mr. Secretary.

E Jr.: Well then, we'd better put them all in storage and then.....

B: Better put them all in a bushel and a peck box and -- and if he's going to pick any like this, they'd better be picked and put in those regular bushel boxes.

E Jr.: Just jumble pack and put them in storage?

B: Jumble box -- pack and with a top facing. Face the top row, see?

E Jr.: Jumble pack but top the -- fact the --.....
B: Just the top row faced. That's -- that's the way they're usually packed - jumble packed with the top row faced.

HMJr: Top row faced. But not to put up any in two-pounds?

B: No. Do you want me to tell Miss......

HMJr: No, I'll -I'm going to call Miss Wais right away.

B: Talking to her?

HMJr: Yeah. I -- she's waiting to hear from me.

B: All right. Well.....

HMJr: And if a......

B: If I -- whatever further information I get I'll pass on to Miss Wais or I'll call you, whichever....

HMJr: I'd rather you'd call me because I'm in a jam on this now.

B: Yes. What -- will you be there.....

HMJr: I'll be there all day.

B: .....at three o'clock?

HMJr: What?

B: Will you be there about three o'clock?

HMJr: Oh, yeah.

B: Three o'clock daylight I'll call you.

HMJr: No, better make it three-thirty.

B: Three-thirty daylight time.

HMJr: Yeah.

B: All right, Mr. Secretary.

HMJr: Thank you.

B: Goodbye.
I had a message -- good morning to you.

Captain Callaghan: How are you, sir.

WMJr: .... -- you called me on Thursday or Friday. Can you remember what it was about?

C: Ah -- yes, sir. It was on the -- on the question about that Byrd Expedition.

WMJr: Oh, yes.

C: The President asked me to -- you remember the other day I called you up about the possibilities of subtracting one ship from the three that were originally....

WMJr: Yeah.

C: .......laid out for them - that Coast Guard ship the NORTHLAND.

WMJr: Yeah.

C: And asking whether you thought that the -- the expedition then could go ahead and establish the one base.

WMJr: Yeah.

C: And I wondered whether you had any word on that, sir.

WMJr: Well, we -- I reported it at Cabinet that we'd spoken to Byrd that we withdraw the one ship. He was very nice about it. He said, "All right."

C: Uh-huh.

WMJr: But he still felt he wanted to do -- have two bases.

C: Well, the President suggested the one.

WMJr: Well now, would -- would you help me out? We're -- I consider that we're out of it now. See?

C: Uh-huh.
HMJr: We contacted Byrd; it was perfectly agreeable that we withdraw the NORTHLAND. We've done that.

C: Yes, sir.

HMJr: Now, would you mind, whoever has been contacting Byrd or the President to do it direct.

C: Well, do -- do you want me to take up the matter with the President for you?

HMJr: No, I'd like you to take it up with Byrd.

C: With Byrd?

HMJr: Yeah.

C: Uh-huh. Well, of course, the President put that on as a suggestion of one base with -- his theory was that if -- if they got down there and tried to establish two bases and they got into trouble, then we'd have to detach some other forces to go down and rescue them.

HMJr: Well, of course, I don't know enough about it. Herbert Gaston talked to Byrd.

C: Uh-huh.

HMJr: He said, "I can get along without the NORTHLAND, but I'd still like to establish two bases."

C: Um-hum.

HMJr: Well, it doesn't mean anything to me, so I -- I just let it go. But you've got plenty of time. He doesn't expect to aboive off until November.

C: No, that's true, sir.

HMJr: But if you'd just count the Treasury out.

C: I see.

HMJr: And if you wouldn't mind talking to Byrd yourself.

C: Well, I'll -- I think it probably better get the President's reaction before I talk to him. --

HMJr: All right.

C: ---on that.
HMJr: Ah......
C: So I'll take it up with the President the first chance I get.
HMJr: And unless the President instructs me additionally I'm going to do nothing more.
C: Uh-huh. Well -- but you have actually withdrawn the NORTHLAND?
HMJr: Yeah, and that's been in the papers.
C: That's been in.
HMJr: And I reported it at Cabinet on Thursday to the President.
C: I see.
HMJr: And I told him about the two bases and the one base.
C: Yes.
HMJr: And told him what Byrd said.
C: Yes, sir.
HMJr: See?
C: I see.
HMJr: So I feel I've carried out my end.
C: Right, sir. Well then, I'll take it up with the President myself.
HMJr: Captain Puleston is here and we're fixing him up with an office.
C: Oh, grand! Oh, that's fine, sir.
HMJr: Thank you.
C: All right, Mr. Secretary.
HMJr: Thank you.
C: Goodbye, sir.
Hello.

Frank Boyce: Yes, hello.

HMJr: Hello, Boyce.

B: Yes.

HMJr: Morgenthau.

B: Oh, hello. I didn't recognize your voice.....

HMJr: Yes.

B: .......Mr. Secretary. Say, I talked with the Government and they said that they've had this matter up with the -- the inspectors up in the valley and this is a -- a condition that's pretty prevalent throughout the valley evidently due to the drought, the early drought. They call it caulking or drought spot.

HMJr: Yeah.

B: Now, they -- they claim that it will show up only in the fruit that will mature early.

HMJr: Yes.

B: In other words, if Bailey were to go through his orchards there and spot-pick for the -- the fruit that shows a hundred per cent color or that shows a whole lot of color......

HMJr: Yeah.

B: .......and packed that and sent it to market, and get rid of it......

HMJr: Yeah.

B: .......your next fruit that comes on ought to be all right.

HMJr: I see.

B: Now, Bailey -- there's some representative of the -- the State that's cooperating with the growers on thi
problem that's located at Newburgh. I don't know the name, but I'll get the name and give it to Miss Wais. And I think Bailey ought to try to work this thing out. You can't work it out by simply going through your orchard now and harvesting everything. I -- I don't believe that -- that's going to get you the right results.

MMJr: Well, what I've done is -- I've told him to send you down ten boxes to sell on commission and see what they bring.

B: Yes.

MMJr: That would give me some idea.

B: Well, that -- that I don't believe, Mr. Secretary, will -- will give you the -- the right idea either, don't you see, because while ten or a thousand -- or -- ten thousand here the first couple of days might sell all right.

MMJr: Yeah.

B: Everybody is going to be doing the same thing, you see?

MMJr: Yeah.

B: And......

MMJr: What would you suggest?

B: ......I believe that you -- you'll get the best results by spot-picking for this ripe fruit, or the ripe fruit will eventually drop to the ground.

MMJr: Yeah.

B: Wait a little while and let all the ripe fruit drop.

MMJr: Yeah.

B: And then follow the -- follow this thing and as your other apples ripen up, cut them and see if it has the caulking.

MMJr: Yeah.
B: They don't seem to think that it will.

HMJr: Yeah. Well, will you explain this to Miss Wals?

B: I did, yes.

HMJr: Good.

B: I called her first.....

HMJr: Good.

B: ......and she told me that you had given instructions to send ten down here tonight, but she thought that you also had instructed to go along and harvest a certain amount each day.

HMJr: That's -- well, we have to.

B: Well -- by golly, I don't know how this thing is going to work out. It's -- it's a real problem.....

HMJr: Well, we'll have......

B: ......how to avoid these -- these apples that have this caulking. You see, the -- the centers -- the -- oh, about the size of a half a dollar is all brown.

HMJr: Yeah.

B: And it's in the best apples. It's in your apples that had the high color.

HMJr: Yeah.

B: In other words, those apples have matured early. Now, the Department of Agriculture tells me that that's typical of this caulking.

HMJr: Yes.

B: That the apples that show the caulking will mature and will ripen faster than the others.

HMJr: Yeah.

B: Now, if that's the case why wouldn't there just be a matter of a couple of days and all the -- the apples that were ripe would be the apples with the caulking
and if you could spot-pick for them, why the rest of your apples ought to be all right.

E: Yeah. Well, I'll talk to Bailey tonight and I'll see what he's doing.

B: Yeah, and I think that -- I'll get the name of this man up the valley.....

E: Yeah.

B: ...... and give it to Miss Wais, see if it won't be a good idea for him to go over and see -- have a talk -- to Bailey.

E: Fine. Well.....

B: All right. Well, I'll follow through with you on it. I'll keep in touch with you.

E: Fine.

B: And we'll see if we can't work this thing out.

E: Thank you so much.

B: All right.

E: Thank you.

B: Goodbye.
September 11, 1939
2:58 p.m.

HMJr: Hello.
Operator: Ambassador Kennedy.
HMJr: Hello.
0: Go ahead.
HMJr: Hello.
Ambassador Kennedy: Hello, Henry.
HMJr: How are you?
K: I'm fine. Sorry to have missed you.
HMJr: I'm sorry to have missed you, Joe. The reason I'm calling you up is that I didn't want to wait for a letter to reach you in answer to that number 1500 that you sent me.
K: Yeah.
HMJr: Where you asked me "What the hell."
K: Yeah.
HMJr: Now, I'll talk in riddles, but I wanted you to know and I realize what a strain you're under otherwise you wouldn't send an old friend like me a telegram like that.
K: Yeah.
HMJr: Now, on Monday last week at Cabinet it was decided to go ahead with that proposal.
K: Yeah.
HMJr: And I was asked to do it. And they sent Hackworth over to sit at my side. Hello? Hello?
K: Yes, Henry.
HMJr: I said, they sent Hackworth over to sit at my side.
Who -- they sent who?

Hackworth, the legal adviser.

Oh, yes.

Now, I saw -- and I was told to do it with the two men at this end.

Yeah.

I was told by Cordell to do it that way.

Yeah.

Hackworth was here to keep Cordell advised what I did.

Yeah.

I asked him when he left, "Are you going back to report to Cordell what's happened"? And he said, "Yes."

Yeah.

And I figured that -- I don't know what their procedure is but the normal thing would be that they'd keep you posted. See?

Certainly.

Now, I only learned today that on the following day, without saying anything to me, Cordell sent for those same two fellows and called all bets off.

That's right.

Well, I only learned that this morning.

They sent -- well, is that so? Well, they sent me a wire.......  

Yeah.

......and I sent that one, because I -- I sent it direct to you. I didn't send any message to the Secretary of State; I said for the Secretary of the Treasury.......
I got it.

... ...because I was staggered!

Yeah.

They have these monkeys cable me over here and then they send me back a wire -- it said the offer was withdrawn and never should have been made.

Well, it was discussed at a full Cabinet meeting.... Hello?

Yes.

... ...for a half an hour.

Yeah.

And then I was told to go ahead and to do it.

Well -- I -- you're the thing that disturbed me very much and I can't tell you how much -- appreciative I am of your calling me. The thing that -- there wasn't any sense because you were going to have a lot of issues that were tying up that this would completely confuse.

Yes. Well, after the Cabinet I said to Cordell, "How should I do this"?

Well, what was going on -- is somebody was willing to take that particular thing and think it was all right.

Now, Joe......

Yeah.

... ...I want to make it plain -- after Cabinet I said to Cordell, "How should I handle this"? And he said, "Send for the two people here in Washington and do it at this end."

Well, it's awful funny, Henry, because they said they know nothing about it.
N: What's that?
E: They said they knew nothing about it.
N: Well, that isn't true, Joe.
E: Yeah.
N: Because Johnny Hanes and Hackworth were both in the room when these two fellows came.
E: Yeah.
N: They both sat here and Hackworth was delegated by Mr. Hull to be at my elbow, and it was discussed at Cabinet for a half an hour.
E: Well, Henry, my own impression is that it doesn't help the prestige of Cabinet Ministers to have their -- if they're calling up Ambassadors and saying that it doesn't count.
N: I -- I don't hear you.
E: I say, I don't think it is very helpful to the prestige of Cabinet Ministers, if another Cabinet Minister calls up Ambassadors and says, "Don't pay any attention to it."
N: Well........
E: I don't think -- I don't think that that is -- is any good for us over here.
N: Well, you -- I don't know how you feel, but I only learned today after I had been instructed to do this, that within 24 hours, without saying anything to me, they called all bets off.
E: That's right. They sent me a cable saying there was no -- it was -- they had sent for the people and told them to consider that nothing had been said.
N: Well, I was out on the end of the limb under direct instructions and they sawed the limb off.
E: They certainly sawed it off. Do you want to see the instruction their wire conveyed?
What's that?

You want to get the wire that they sent us.

Well, I've asked for it and they won't show it to me.

They won't.

No, I've asked for it and they've refused to show it to me.

I see.

But I didn't want this kind of going on -- now the -- in your mind, and having you feel that -- that an old pal -- that I've -- that I've done something -- well, -- which I wasn't guilty of.

Well, I -- I appreciate that, Henry, and -- but it -- it looks worse and worse as you tell it to me.

Well, Johnny's sitting across the desk from me now and he was here when those two representatives came in and so was Hackworth. He heard the whole business.

Yeah. Well, we were -- we were advised that there was nothing to it and that there was nothing for anybody to get excited about because it was unauthorized.....

Yeah.

......and it was withdrawn.

Well, you got off easy.

Yeah.

I say, you got off easy.

I did?

Sure.

How?
K: Well, I was authorized to make the representation and then without any notice they called these two fellows in and said, "All bets are off."

K: Yeah. Well, we didn't -- they didn't give us any authorization, they withdrew it right here in Washington.

K: Yeah. Well, I wanted you to get it and -- because these are difficult times and you -- there'll be lots of things that we've got to do together the way we have in the past.

K: Henry, don't worry about this -- don't worry about the situation because if I was sure I -- you know, I'd send you word at once.

K: Yeah.

K: I mean, I wouldn't keep it in my craw, because I can't do that.

K: No, I know you and I -- and that goes both ways.

K: All right. I'd rather send you the word and then -- and now here's the situation. I mean, -- if he goes and queers it up, the only thing to do is -- you've got a real fight with the State Department.

K: I don't hear you.

K: You've got a real dispute then with the State Department.

K: Well, I'm calling on Cordell at a quarter of nine tomorrow morning at his apartment.

K: Yeah.

K: And I'm telling him that I'm not used to being treated this way.

K: Yeah.

K: But this is just in the family and so will you keep it under your shirt?
K: Certainly. What they're going to do is -- they've got to build our prestige one to another. They can't -- there's no sense in us -- in knocking any of us -- our fellows -- our own fellows off.

EHJr: That's right.

K: And there -- there's no point in that, and -- and it makes everybody look like a monkey. I -- I've had two wire's withdrawn this week.

EHJr: What's that'

K: I've had another withdrawal this week. I got -- another wire they sent me in connection with

EHJr: I see.

K: But you can't be wiring to this foreign office and then get a wire 15 minutes later saying withdraw the offer. They think we're crazy.

EHJr: Yeah. Well, this is just between you and me.

K: All right. It's -- it's dead as far as I'm concerned, Henry, and I'm glad you called me up. And you know how I feel about it. I don't want -- I know very well that I can save you a lot of bums as far as this place goes.

EHJr: Well, the next time......

K: ...... if I know what -- what's going on, but this one struck me so between the eyes that I didn't know whether I was afoot or horseback.

EHJr: Well, Joe, if I ever do anything else like this, no matter what they tell me, I'm going to call you up on the phone.

K: Right. I'll do the same, boy.

EHJr: And if they don't like it I'm -- I don't -- they can go jump in the Potomac.
All right then, I won't pay any attention to that any more. I mean, they get -- they've got me crazy.

O. K.

All right. Give my love to Johnny.

What?

Give my love to Johnny.

To who?

Give my love to Johnny Hanes.

Sure. He'd like to say hello to you.

All right.

(Mr. Hanes takes the phone.)

Hello, Joe.

Johnny, I just sent you my best.

Well, I thank you very much. My best to you, Joe.

Well, I hope everything is going all right. I'm glad I had a chance to talk to Henry because -- boy, they handed him one deep ripe tomato.

Yeah. Well, I'm glad he got it straightened out with you so you know exactly where he stands. And I was with him in all of this thing and what he tells you is the absolute fact of it.

Well, I know -- I know that. I mean -- god, I'd take his word on anything, but my point is this, Johnny, I'm -- all I'm doing over here is trying to find the lay of the land so that you won't make any mistakes.

Yeah.

Because I see them first.
E: I see.

X: And there's -- that's why I was stunned at this one, because I couldn't imagine anybody breaking the law, with me as familiar as I was with the situation without at least giving me a look.

H: Sure.

X: And -- and then they told me to forget it -- there was nothing to it.

E: Yeah. Well, of course, it was our understanding that they had told you and when we found out they hadn't today, we just get an awful shock ourselves.

X: Yeah. Well, you'll get a worse one.

H: (Laughs) Well, Joe, it's nice to hear your voice. Good luck to you.

X: Well, I -- as I said to Henry, I'd rather send him a wire right off to him -- not for anybody else, but for him, telling him exactly what was in my mind, rather than be around here belly-aching.

E: Yeah. Right!

X: Yeah.

E: Well, goodbye, Joe.

X: Good luck, Johnny.

E: Good luck.

X: Goodbye.
Operator: Governor Harrison.

H: Hello.

Go ahead.

George: Hello.

Harrison: Hello.

Jr: George.

H: Yes, Henry.

Jr: How are you?

H: First-rate, thank you.

Jr: I hope you're going to be here tomorrow.

H: I'm going to and I'd like to have lunch with you.

Jr: Good. Well, I'll fix it up with Frank.

H: I would have called you sooner but I just this minute got through my meeting.

Jr: Well, other -- well, since then a couple of things have happened which I think for everybody's sake that we ought to -- the sooner we clean it up the better.

H: All right.

Jr: You'll be here at one tomorrow?

H: I'll be there at one.

Jr: 'Attaboy.

H: All right.

Jr: Thank you.
Earle
Earle: Yes.

HM Jr: Earle?

B: Yes, Henry.

HM Jr: If you could do it on the phone you'd help me.

B: Well, Henry, the point is this. We've bought 65 million bonds today.

HM Jr: Yeah.

B: Randolph's been up in New York working with these people and he feels reasonably satisfied about it.

HM Jr: Yeah.

B: I feel very dissatisfied about it.

HM Jr: Yeah.

B: And -- well, Bell is a little bit between the two fires. Bell's views are not very far from mine.

HM Jr: Yeah.

B: And -- yet in the situation that we want to clear with you so that -- before the opening tomorrow -- if we -- we do want to say something to the Federal, now that......

HM Jr: Well, Earle, I'm completely shot now and my brain is no use.

B: Well, I'll talk to you tonight about it.

HM Jr: You'll have to talk to me tonight.

B: That's all right. I can tell you what Dan thinks and there's no hurry about it. I just wanted to give you a chance to hear from Dan as well as me.

HM Jr: Well, if we want Dan I'll send for him after supper.

B: O. K.
HMJr: But you get what Dan has and you give it to me at supper time, but I'm completely shot.

B: Well, you get yourself a little nap and I'll see you later.

HMJr: Righto.

B: Goodbye.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 11, 1939.

to Secretary Morgenthau

from Mr. Haas

Attached is a report of a meeting on prices, held Friday, September 8, 1939, which I attended at Mr. Hanes' request.

Mr. Hanes was given a copy of this report on Saturday, September 9, 1939.
Subj: Report of Meeting on Prices held in Room 6137
North Interior Building, on Sept. 8, 1939, at
2:30 P.M.

Attendance: Chairman, Mr. Lauchlin Currie, Assistant to the President

Hirnichs, Alfred F.,
Chief Economist,

Joy, Miss Arlyness,
Assistant to the Commissioner,

Edwards, Corwin,
Special Assistant to the
Attorney General,
Department of Justice.

Kreps, Dr. Theodore,
Economic Consultant,
Temporary National Economic
Committee.

Thomas, Woodlief,
Assistant Director,
Division of Research and
Statistics,
Board of Governors of the
Federal Reserve System.

Ezekiel, Dr. Mordecai,
Economic Adviser,
Office of the Secretary,
Department of Agriculture.

Bean, Dr. L. H.,
Economic Adviser to A. A. A.,
Department of Agriculture.

Thomsen, Dr. Frederick L.,
Assistant in Charge of
Division of Statistics and
Historical Research,
Bureau of Agricultural Economics
Department of Agriculture.

Henderson, Commissioner Leon,
Securities & Exchange Comm.

Gilberts, Richard V.,
Expert, Office of the Secretary,
Department of Commerce.

Piquet, Howard S.,
Chief of the Economics Division,
U. S. Tariff Commission.

Blaisdell, Thomas C., Jr.,
Chairman, Industrial Committee,
National Resources Planning Bd.

Haas, George C.,
Treasury Department.

Mr. Currie, who was Chairman of the meeting, said that the purpose of the meeting was not to discuss policy in connection with prices but rather to ascertain (1) what price data were being collected in the various Government departments, and (2) what
particular price studies of various commodities had been made in
the different departments and whether or not these were being
kept up to date.

Mr. Hinrichs reported for the Bureau of Labor Statistics and
reviewed briefly the price material which that Bureau was collecting.
He indicated —

(a) The Bureau of Labor Statistics now publishes a monthly
index of wholesale prices, both in total and by various commodity
groups.

(b) A similar price index is issued on a weekly basis.

(c) For some years now the Bureau of Labor Statistics has
constructed a daily price index at the specific request of the
Treasury Department. Up to the present these particular daily
prices and the daily price index have been made available only to
the Treasury Department. He said, however, that if the Treasury
Department had no objection this index could be made generally
available.

(d) During the last week daily retail prices of nine commodi-
ties were being secured by telegraph from various cities. He
questioned the reliability of these prices, however, as indicating
the rise in food costs. He went on at considerable length to
explain the difficulties in securing adequate retail price data.
For the time being at least they intend to continue receiving the
telegraphic retail price reports.

(e) The Bureau of Labor Statistics is now working out a
basis for reporting a monthly figure on living costs. At the
present time the B.L.S. Index of Living Costs is published quarterly.

Mr. Thomsen, of the Bureau of Agricultural Economics, pointed
out that the Department of Agriculture assembles daily market prices
on all important agricultural commodities. A monthly index is con-
structed of prices paid by farmers and another index of prices
received by farmers. He also indicated that the Bureau of Agri-
cultural Economics releases once a year in the Fall an agricultural
outlook report which describes the price situation for all the
important agricultural products. This general report, he said,
was kept up to date by a general monthly report and this monthly
report is supplemented by specialized detailed reports covering
each of the major commodities.

Mr. Kreps, of the Temporary National Economic Committee, said
he would like to have the Bureau of Labor Statistics or some other
Organization secure prices on important war materials, particularly
the chemicals. He felt that it was more important to keep a careful
watch on that point in the economic structure than the agricultural
price situation.
Mr. Henderson, of the Securities and Exchange Commission, asked if the Bureau of Labor Statistics checked prices carefully, particularly the metal prices, to see if actual business was done at the quoted prices. He mentioned several of the metals — steel, zinc, etc. Mr. Edwards, of the Department of Justice and formerly an Economist with the Federal Trade Commission, and Mr. Hinrichs felt that in a period of increasing demand the quoted prices would rarely be nominal prices.

Mr. Edwards said he thought it would be very valuable for some department to assemble what he called a library of "price instruction sheets". He pointed out that in the steel industry, for example, this is a very good way to accurately follow what is actually being paid for the commodity.

Mr. Currie, after hearing this review of price material and price analyses which were available in the Government departments, then said that he thought studies of certain industries should be made so as to forecast when bottlenecks or capacity production would be reached. He expressed an interest in the following industries: steel, railroad equipment, electrical equipment, and chemical. The studies, he thought, should attempt to estimate not only the domestic demand but also the European war and related demand, and from this combination make an estimate of when capacity production might be reached. The Department of Commerce and the Justice representatives tentatively agreed to carry on investigation along the lines suggested.

Mr. Currie closed the meeting, saying that he felt he was much better informed as to what was available in the Government departments with regard to price material, and that it was possible that Mr. Stettinius, Chairman of the War Resources Board, may call upon him to act as liaison man in securing information available in the Government departments. He also indicated that similar meetings would be held in the future.
Present:

Mr. Hanes  
Mr. Thompson  
Mr. Graves  
Mrs. Klotz

The Secretary explained that so far he has been unable to get the Assistant Secretary he has been looking for who would handle Procurement, Bureau of Engraving and Printing and the office of the Director of the Mint. His thought was to place Harold Graves in charge of these divisions of the Treasury until such time as a suitable Assistant Secretary can be found. He pointed out that these are the only Divisions of the Treasury which have not had a check-up or study made of them and said he did not like the idea of these three Bureaus floating around with no one to look after them.

The Secretary asked Mr. Thompson if there should be any order announcing the assignment of Mr. Graves and Mr. Thompson said yes, he thought there should be and that he would prepare such an order.

Mr. Graves pointed out that there are a few odds and ends in connection with his work in the Bureau of Internal Revenue which he would like to follow through to a conclusion, and the Secretary agreed that he should. He told Mr. Graves he would like to be kept posted after Graves got started on his new assignment.
TO: Secretary Morgenthau
FROM: Mr. Haas

Subject: The Business Situation, Week ending September 9, 1939.

Conclusions

(1) A continued rise in industrial production appears in prospect for the months immediately ahead, with inventory accumulation and war orders adding their influence to an already favorable business situation.

(2) Last week's precipitous rise in basic commodity prices has brought on a nationwide buying movement, which is likely to be quickly translated into increased industrial production. To the extent that this reflects an anticipation of future needs, however, it will tend to make the position of business more vulnerable.

(3) The price upturn represents the combined effect of at least four factors: (a) A low-inventory situation; (b) widespread speculative buying of foodstuffs and other commodities; (c) a delayed response of prices to the recent improvement in business activity; (d) the large volume of idle funds seeking investment.

(4) Price movements are likely to be highly erratic, particularly in view of the possibility of peace rumors, and a substantial setback is possible from current levels. The possibility of a setback is strengthened by the following facts:

(a) The upturn occurred so suddenly that existing supplies could not at once be made available to buyers; (b) burdensome stocks of various agricultural products remain a major domestic problem; (c) the widely-expected war demand may prove disappointing, since the near-term requirements of many countries have been anticipated; (d) the heavy fall marketing of cotton, hogs, and cattle, will soon provide increased pressure on prices.
The general situation

Economic developments of the past week have largely centered around the sensational upturn in commodity prices, which has brought such an increase in public demand for goods and commodities as to assure a continued rise in industrial activity during the months immediately ahead.

The price rise has been general among domestic as well as import commodities. (See Charts 1 and 2.) As compared with closing quotations on August 31, the futures prices for commodities included in the two charts showed on September 8 the following percentage increases:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Per cent increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>35</td>
</tr>
<tr>
<td>Lard</td>
<td>30</td>
</tr>
<tr>
<td>Hides</td>
<td>23</td>
</tr>
<tr>
<td>Cottonseed oil</td>
<td>25</td>
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<tr>
<td>Wheat</td>
<td>24</td>
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<tr>
<td>Copper</td>
<td>23</td>
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<tr>
<td>Rubber</td>
<td>17</td>
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<td>Silk</td>
<td>17</td>
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<tr>
<td>Cotton</td>
<td>13</td>
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<tr>
<td>Tin</td>
<td>8</td>
</tr>
<tr>
<td>Coffee</td>
<td>7</td>
</tr>
</tbody>
</table>

The price upturn is the direct result of at least four factors:

1. A low-inventory situation in industry generally, which had threatened for some time to bring about a buying stampede as soon as prices turned upward.

2. A speculative buying movement among consumers and others, on the belief that this war will bring a repetition of the price inflation that accompanied the World War.

3. A delayed response of prices to the sharp increase in business activity and industrial demand which has occurred during the past several months.

4. The large volume of idle funds seeking investment, some part of which has doubtless been diverted to the commodity markets.
For practically a year, prices of basic industrial materials had failed to respond adequately to the rise in business activity. The shock of war, and the buying movement it has created, have served to correct this disparity. (See Chart 3.) During 1936 commodity prices lagged in somewhat similar manner, until the announcement of the British rearmament program late in that year touched off a price boom that lasted until the following spring.

Probable effects of price rise

The upturn in commodity prices, coming on top of an improving business trend, will add a strong impetus to industrial production through stimulating inventory accumulation. This factor is entirely apart from whatever business improvement may be derived from war orders and from foreign demand diverted to this country because of the war.

Some idea of the potentialities in inventory accumulation as a business factor may be gained from Dun and Bradstreet's estimates, which show that from December 31, 1937, to December 31, 1938, inventories in manufacturing, wholesale trade, and retail trade were reduced $1,762,000,000. Available information indicates that inventories currently are not much above those at the end of 1938.

To the extent that buyers anticipate their forward requirements, and inventory accumulation brings a rise in industrial production above the level of consumption, the future position of business will be weakened. This need not necessarily result in an important business setback, however, since (1) consumption will increase with improving business; (2) a larger volume of inventories will be needed for trade requirements; (3) if the price outlook remains favorable, it will reduce the danger of inventory liquidation.

Industrial buying increasing

Evidence of a strong buying movement, representing in part an anticipating of forward requirements, appears in various industries. Sales of cotton cloth last week, according to the New York Times, reached a total estimated at over 550,000,000 yards or the equivalent of 20 weeks' production, the largest in several years. Steel buying has increased substantially, as domestic consumers have hastened to cover
their future requirements. A buying rush has developed in the chemical industry during the past few days, and manufacturers of such products as paper and plate glass have been faced with a broader demand for their products due to a threatened restriction of foreign supplies.

These developments have not, as yet, been reflected to any appreciable extent in the published business statistics. Our new orders index for the week ended September 2, before the buying movement started, showed some decline from the week before though remaining within its recent range. (See Chart 4.)

Nevertheless, these developments have added to a business situation that was already optimistic, and will shortly provide a further impetus to the rising business trend. The New York Times business index for the week ended September 2 rose 1.7 points to 94.0, a new high since December 1938. (See Chart 5.) The Labor Day holiday will tend to obscure the underlying trend in the week ended September 9, but the following week will begin to show the effects of the recent buying movement.

The seasonally-adjusted indices of steel production and cotton mill activity, representing the two most heavily-weighted industries in the FRB index, also rose during the week ended September 2. (Shown on Chart 5.) Steel activity this week was boosted sharply to 70.2 per cent of capacity, which compares with 58.6 last week, when it was reduced by the holiday, and with 63.0 the previous week. Cotton mill activity will doubtless rise further because of last week's orders.

Increased demand from the agricultural areas resulting from the marked improvement in prices of farm products may become an important business factor, though its effect will be more or less offset by a reduced purchasing power of other consumers due to increased living costs.

Relapses may follow speculative buying

While a substantial rise in commodity prices was warranted by the improving business outlook and the prospect of increased war demand, particularly in view of the depressed levels to which prices had fallen earlier in the year, there is little doubt that a considerable part of the recent upturn
has been of a purely speculative nature. Remembering the high prices of the World War period, housewives throughout the country have rushed to lay in supplies of such commodities as sugar and flour, attempting to buy in a few days their requirements for several months. The result has been a severe depletion of retail stocks of various commodities. The shortage has not been in actual supplies, but in immediately available supplies at the location of demand. Speculative buying in the futures markets has been stimulated by these developments.

Erratic price movements seem in prospect, particularly in view of the possibilities of peace rumors from time to time. Since speculative price movements are notoriously unsound, it is entirely possible that the almost perpendicular price rise of the past week may shortly be followed by a substantial reaction.

The surpluses of various farm commodities which have recently been a major domestic problem are just as heavy as ever, and an actual increase in demand as a result of the war is not yet certain. Unlike in the previous war, many countries have already anticipated much of their near-term requirements. Certain other factors will operate against the markets after the "shock" effect of the war has worn off:

(1) Prices have been carried up in part by the suddenness of the increased demand, which has created temporary shortages that will probably soon be corrected.

(2) Increased supplies of various agricultural products will soon come on the market.

(a) The cotton crop will begin to move in heavy volume this month. The cotton crop was officially estimated last Friday considerably above general expectations, at 12,380,000 bales versus 11,943,000 bales last year.

(b) A very heavy movement of hogs expected during the fall and winter, together with a seasonal increase in cattle marketing, will bring increased pressure on livestock prices.

(c) The higher wheat prices are likely to cause increased planting of wheat this fall. They will also increase the "available" supply by reducing the amount going into the Government loan.
GROUP MEETING

September 11, 1939.
9:30 a.m.

Present:  Mr. Hanes
         Mr. Duffield
         Mr. Smith
         Mr. Haas
         Mr. Bell
         Mr. Foley
         Mr. Graves
         Mr. Thompson

H.M.Jr:  John?

Hanes:    I haven't got anything except we are having that
          meeting here at 11:00 o'clock, which you know
          about. Everything is under control. After we
          have met, I would like to have five minutes with
          you, and then tell you what we have recommended,
          so you will have it in time for your press con-
          ference this afternoon.

H.M.Jr:  I want it in plenty of time to digest it.

Hanes:    Sure.

H.M.Jr:  It affects the banks?

Hanes:    Yes.

H.M.Jr:  Well, let Tom take a look at it.

Hanes:    I did ask Burgess. Tom wasn't here. I thought
          I would ask him to meet me right after we have
          met with these people, or if they would like to,
          sit in. I would like to have them if they are
          not too busy with something else. It is under
          Section 3 of the Neutrality Act which affects
          banking credits.

H.M.Jr:  Either way, either they do it then or when it
          comes to me they can sit with me and do it that
          way.

Bell:    Burgess isn't here today.
H.M. Jr: So I understood. But I would like to have plenty of time.

Hanes: I remember that I told Burgess that I would read to him over the telephone in New York what we decided, before you give it out to the press.

H.M. Jr: Maybe it would be just as well if you and Tom and I talk to Burgess on the phone.

Hanes: Sure.

H.M. Jr: Is that all right?

Smith: Sure.

H.M. Jr: United Press asked us about a report from London that the United States was negotiating for the purchase of the Normandie. I think if I am asked that question - if they ask me at 3:00 o'clock - I don't want to lie to the boys. I will have nothing to say.

Duffield: They may not ask you because I rather indicated over the phone last night when they asked me that it wasn't a matter which would ordinarily come under the Treasury.

H.M. Jr: Under the State Department?

Duffield: Maritime Commission is where they are working on it.

H.M. Jr: Well, the State Department kind of grabbed it off. Why not let it come under the State Department?

Hanes: It seems to me there ought to be some way to answer that so as to kill it.

H.M. Jr: There are no negotiations going on. There were and they were killed. That is the truth.

Hanes: You could hardly call them negotiations.

H.M. Jr: No.

Duffield: That would be a good answer, if you could make it, that there are no negotiations going on, as far as you know.
Well, no, I am not now carrying on any negotiations.

Hanes: I would just say definitely there are no negotiations for the purchase and let it go at that. No further statement and no further comment.

H.M. Jr: That does not mean that there were none.

Hanes: If they ask you if there were, you can say, "I have no further comment. There are no negotiations." That will do it.

H.M. Jr: Well, if they ask you (Mr. Duffield) again, you can simply say there are none.

Duffield: As far as we know at the Treasury or in the Treasury, yes.

H.M. Jr: As far as the Treasury is concerned, we have no negotiations.

Duffield: That is a good answer.

H.M. Jr: I knew that thing would leak sooner or later.

Duffield: It came from the wrong capital.

Hanes: Where did it come from?


H.M. Jr: I will write a letter to Joe when I get a chance. Anything else?

Hanes: No.

Duffield: I have nothing.

H.M. Jr: George?

Hanes: Nothing yet. We are getting some - at least here is one telegram - people are asking you to investigate high prices.

H.M. Jr: I talked with the President about it at Hyde Park coming down and I didn't get very much satisfaction.
If the budget summation is going to be issued, I think we ought to have another chance to look over the revenue estimates. It may not be issued at all. If so, we can let it ride.

Bell: I think we ought to look it over anyhow. That is the reason it was held up during your absence (speaking to the Secretary), and Mr. Haas's absence. Looking over the budget summation, we found that the revenue estimate was materially reduced from January and there is a statement in there that one reason it was reduced was because we are not quite so optimistic about the business outlook as we were in January. We thought that wasn't quite the thing to put out at this time.

H.M. Jr.: Who put that in?

Bell: That was a memorandum written, I take it, by Miss Michener.

Haas: I dictated over the phone - that was good at that time, but that is academic now in view of the war coming on.

Bell: We questioned whether you ought to put out a statement like that, to say that we are not quite so optimistic at this time.

Haas: It didn't say that, Dan.

Bell: That is the sense of it. So I asked Smith to hold it up until you got back (speaking to the Secretary), and there is where it is now. It is being held. I take it this war situation will even change it more.

H.M. Jr.: Why change it?

Bell: Not only the revenue but the expenditure side.

H.M. Jr.: Would you take another look at it?

Bell: I think Mr. Haas and Mr. Hanes ought to go back over it and see whether or not we can eliminate the reductions in the estimates due to the outlook for business.
Haas: I think you can do more than that now.
Haas: Dan and I talked about it when you were away (speaking to the Secretary), and our estimates showed about 261 million dollars reduction of revenue. I think that is about right.
Haas: Part of it was Social Security which was eliminated, the increase.
Haas: We decided the best thing to do was hold it up be-cause we didn't want to put out a statement that seemed so different than conditions at that par-ticular moment.
H.M.Jr: Supposing you grab hold of this and take a look at it and when you are satisfied with it, using the Treasury staff, bring it in and show me that part which you think ought to be read. How is that?
Hanes: Fine.
H.M.Jr: Will you take that responsibility?
Hanes: Yes.
H.M.Jr: All right. Now, George, there is one thing I would like you to do. I wish you would take a look at all of the expenditures, money that Agriculture has available for this fiscal year, and in view of the price rises on parity payments and things like that, what money does it look like they will not have to use, see?
Haas: Yes.
H.M.Jr: After all, I remember they got about 350 million dollars for parity payments alone, didn't they?
Bell: 225 million for parity payments and the rest of it was for loans to buy farms.
H.M.Jr: Well, take a look at that, whatever it is, and in view of the price rise, what monies are we likely to save that they cannot use. Then the other thing, for instance, on the Soil Conservation, which had about 500 million at that time: For instance,
they pay me to put in rye and plow it under, yes, to enrich the soil. How many of those kind of things are in the process and what are those kind of things that they might want to change, because maybe we want more crops. Do you see?

Haas: Yes.

H.M. Jr: It is silly to pay me for planting that rye and next spring give me so much an acre for plowing it under. But, that is what they do. For every acre of rye I plant and plow under, they give me a bonus. They have got 500 million dollars for that and a lot of those Soil Conservation things.

As to the rise in prices, and making a bold forecast, why, possibly we might show the President that they might save several hundred million dollars.

Haas: They may change their policy on that.

Haas: As a matter of interest, I think the report is that Lauchlin Currie called up on Friday, I think, after you had gone and asked us to send a representative to a meeting Friday afternoon at 2:30. I asked George Haas to go and he did go, and I have a memorandum for you on that meeting. No policy matter was discussed, but the price situation was discussed, and they had representatives there from the Agriculture Department. I have forgotten now who the other people were.

Haas: About fourteen people from all over the Government. The main point was informing themselves what material was coming into the Department from prices, what studies had been made, and the whole meeting was taken up on that. He said there were going to be some more meetings.

H.M. Jr: Keep me posted.

Haas: I will.

H.M. Jr: But you will take a look at that?

Haas: Yes, I will do that right away.
That might be substantial, the thing you were talking about.

I'm thinking in terms of three to five hundred million dollars.

Aren't there other things except rye?

I mean that the Soil Conservation program is 500 million. The parity payments are 225 million. That is 725 million dollars.

About 140 or 150 million dollars of surplus food, Customs money.

This condition might make that a mess.

Then there is the money for exports....

They've dropped that.

Take a look at the whole thing and we might say to the President, "Here is a chance of saving hundreds of millions of dollars which you may want to use for purposes of national defense, to prepare the nation," do you see?

There is a capital impairment of 119 million dollars which the Congress appropriated. I saw a statement in the paper that that was all regained.

That was in the paper.

Well, George, you get that.

I get that.

Don't you think that is a good idea?

I could see 500 million dollars.

I think that 500 million dollars is - especially where they are going to need additional monies.

Of course the change in prices makes that unnecessary.

Yes.
Baas: I will get right on that.
Foley: I don't have anything.
Graves: I have nothing.
Bell: I guess you know that we bought 379 million dollars in bonds since September 1st, including Friday, the first.

Bell: 279 million in bonds and about 50 million in notes and about 50 million guaranteed.

Messersmith is having a meeting at 10:00 o'clock to try to find ways and means of getting money and bringing Americans back from abroad. He asked me to attend it, more because of my former connection with the budget than anything else. I guess there is no objection is there?

Bell: That is what we decided the night before.

Bell: I take it that Don didn't announce it until that morning. It went 105 million, a 30 million dollar issue. It went very well.

Bell: They were over here at 5:30 and that meant 6:30 in New York. It may have been that they got it too late in time to get out these notices. That might be the answer.

Bell: But it went all right?
Bell: Yes, it went fine.

Thompson: I have a letter from General Watson asking that the Commissioner be sent home from that Jacksonville case.

E.M.Jr: Asking that John J. Fahe be appointed for - vice....

Duffield: In place of....

E.M.Jr: In place of J. Edward Larson. What are they going to do with Larson?

Thompson: Well, the Department of Justice have offered Larson a 60-day appointment. Senator Pepper's secretary tells me that the Department of Justice might renew that beyond 60 days. He doesn't think Larson is going to take the job. He is planning to run for State Treasurer of Florida.

E.M.Jr: That is the second time you have ordered it?

Thompson: Yes, I ordered it two weeks ago. I have an order here saying the Bureau of Customs will be assigned to Basil Harris, in the capacity as Assistant to the Secretary.

E.M.Jr: What about the salary?

Thompson: No salary. This letter just gives him the authority to sign the class of mail the Assistant Secretary would sign.

E.M.Jr: All right.

Now, how about your moving?

Thompson: The moving has made great strides. Mr. Smith moved in this morning.

E.M.Jr: Has he got a place?

Thompson: A beautiful place.

E.M.Jr: (Speaking to Mr. Smith) Is it all right?

Smith: Sure.
Hanes: Are they moved in?

Thompson: Moved down this morning.

E.M.Jr: Did you get the right kind of sharks?

Smith: Didn't get one. It rained. We caught a submarine and a German freighter. We were out in the picket boat and a submarine came up right in front of us.

E.M.Jr: Are you serious?

Smith: Yes, I'm serious.

Foley: An American submarine?

Smith: Yes, they were practicing and the thing came up right out of the water in front of us.

E.M.Jr: What did you do?

Smith: Looked at it. It is a sensation, though. And then we started in after a while and one of these German motor vessels, coming from Boston to New York on the inside route, came along. I didn't see what the name was, but it was a German vessel and they said it had been up - made a trip a few days before that through the Cape Cod Canal and down. That is all we could catch. It was very interesting, though.

Foley: Mr. Secretary, there are two things, if I may bring them up. One, the President signed a second order on Friday speeding up the expenditures of the regular appropriations for the Army and Navy and Marines. Would you want to present one to the Coast Guard?

E.M.Jr: Yes.

Foley: It isn't necessary, but he said he wanted to do it, I understand, by Executive Order.

Bell: The one for the Coast Guard is already presented, went in last Monday or Tuesday.

Foley: The Executive Order?

Bell: No, speeding up the expenditures of the Coast Guard.
But he signed an Executive Order. He's doing it for the Army, Navy and Marines, and I thought we might want to do it the same way, so far as the Coast Guard is concerned, because you are adding additional men because of this emergency.

What about that?

I don't know, but I think in the case of the Army and Navy and Marine Corps it requires an Executive Order under the National Defense Act, whereas under the Coast Guard, it only requires money, and we did send to the Budget last Tuesday a request for release of funds to take on those thousand men that you said the President had approved last Monday. That has gone to the Budget and I think it is approved by this time.

We found out about it from Justice. They had already sent the order over to the White House. They said they would have included the Coast Guard if they had had the suggestion earlier.

What do you suggest, Dan?

We might look into it and see whether or not there is anything like that required under the Coast Guard law.

It would simplify the thing and as long as he wants to sign these Orders doing these things and making public acknowledgment of it, it might be just as well to handle it this way.

Dan, will you let me know?

Yes, sir.

The other thing is adding two additional belligerents to our war credits regulations. Perle told me that he would take care of our regulations as he took care of the other orders, as additional belligerents came in, and he didn't do it in so far as South Africa is concerned, and now Canada has come in, so it is a question of whether we want to take the initiative and present something to the President to bring that regulation up to date today or wait on the State Department.
Hanes: They did bring South Africa up, didn't they?
Foley: No, they did it for the Neutrality Proclamation but not for our regulations.
Hanes: I think so far as the Coast Guard and Customs are concerned....
Foley: That is all right.
Hanes: We added that. We sent out telegrams, you know.
Foley: But they didn't bring up to date our regulations in so far as credits to belligerents go, and now there are two new belligerents, South Africa and Canada.
E.M., Jr: Can't that be taken care of?
Hanes: Sure, but we haven't issued any regulations on the belligerents yet.
Foley: The President has signed this regulation and you have got to add each time a new belligerent comes in, those belligerents to that regulation. So he has to amend that regulation to add South Africa and Canada.
Hanes: I would assume that would be our responsibility, to present that to the President for addition to the regulations, wouldn't it?
Foley: Are you going to see him at noontime?
E.M., Jr: I usually do.
Foley: Would you like to take....
E.M., Jr: No, let it go through the regular way. It can be drawn up by Hanes, and Thompson can send it over the regular way. It is up to you fellows to get it to Thompson and let Thompson send it over there.
TO: Secretary Morgenthau  
FROM: Mr. Haas  
SUBJECT: Corn marketing quotas.

Under the Agricultural Adjustment Act of 1938, as amended, the Secretary of Agriculture may proclaim on or before Friday of this week that a corn surplus is in prospect, preliminary to conducting a referendum among farmers on the adoption of marketing quotas. Economists of the Department of Agriculture are meeting on this problem this morning. The grain trade apparently does not expect such a referendum, since total corn supplies as indicated by yesterday's official crop estimate are only moderately higher than last fall, when a referendum was considered unnecessary.

The Act provides that marketing quotas shall be put in effect in the commercial corn-producing area whenever the Secretary of Agriculture determines from available statistics of the Department that the total supply of corn as of October 1 will exceed the normal supply by more than 10 per cent, subject to the following provisions:

(a) The Secretary shall determine, on the basis of the current year's yield, what acreage would make available a total supply of corn equal to a normal supply. This acreage, expressed as a percentage of the acreage allotment under Section 328 of the Act, gives the "marketing percentage" for the application of quotas.

(b) The Secretary shall proclaim his finding that a surplus is in prospect, together with his determination of the marketing percentage, not later than September 15.

(c) Within 20 days after the issuance of the proclamation a referendum shall be conducted among farmers subject to the quota. The quota becomes effective only upon approval by two-thirds of the farmers voting.

After marketing quotas are established, there is determined, for each farm on which the acreage of corn exceeds the marketing percentage, a "storage amount" which cannot be sold without heavy penalty.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Berlin, Germany
DATE: September 12, 1939, 9 a.m.
NO.: 1200

The introduction of full war control measures has occasioned little surface disturbance, since the German economy was already on a military basis. However, the measures for rationing are not working with complete smoothness everywhere. There are sufficient stocks in many shops to meet the restricted requirements of the customers, but there is complaint in certain districts of the city that the customers cannot get all the items listed on their ration cards. During the morning buying hours there are long lines in front of food shops.

There have as yet been no heavy runs on the banks, nor have formal restrictions on withdrawals been imposed, so far as can be ascertained. However, an informed source tells us that in certain centers there have been gradual withdrawals and steady buying of articles whose sale is not restricted or rationed. It may be said that the situation is one of incipient anxiety as to the mark's stable purchasing power. The stock exchanges have not been closed. It is understood that the turnover on the market is greater than in the dull markets of late spring and early summer, although during the past two days trading has been quieter and certain shares have
have lost a part of the gains which they realized last week. Apparently the bond market is remaining firm; shipping shares are removed from trading.

The Reichsbank statement for the first week of September reflects the heavy financial demands of the Government. This statement showed that instead of the decrease in currency circulation and loans and investments which invariably occurs during the first week of the month, there has been a further increase. On August 31 the total currency circulation of the Reichsbank was 11,640 million marks; on September 7 it had increased to 11,993 million marks. During the week the bill and check portfolio rose from 10,272 million to 10,592 million marks. This statement again omitted from its record of currency circulation the amount of coins and rentenbank notes. It is certain that the amount of rentenbank notes in circulation has gone above the figure of 400 million marks, at which it has been relatively stable for the past three years, in view of the introduction of one, two and five mark denominations. During the week the rentenbank note issue rose from 10,907 million marks to 10,970 million marks. It is probable that the total currency circulation is now fairly close to 13.6 billion marks, assuming increased rentenmark (rentenbank note) circulation and no decrease in coin circulated.
Just now it is still too early to speculate as to how successful the control authorities of the Third Reich will be in maintaining price stability, under war conditions, for the next few months. A good authority tells us that it is the belief of the price control authorities that the Government should go farther in increasing taxation and decreasing wages, saying that the measures which have been taken so far for reducing and sterilizing expendable income are not sufficient to insure against developments of an inflationary character. So far, however, the Government is opposed to further action in the field of direct wage reductions and increased taxation. The Government, says one authoritative opinion, will be successful in stabilizing the prices and in assuring a fairly equal distribution of those things which are vitally necessary. However, in the less necessary and luxury articles, the Government will not be able to prevent inflationary price advances, this authority states. Also, this same source says it is very doubtful that any important or general reduction of prices could be carried out by the Government. It is his belief that the Government will be successful in enforcing increased saving, through its rationing measures; however, during the war these savings cannot be used, and the Government will eventually have to "wipe out"
"wipe out" through capital levy or through inflation not only the savings from wartime but much of the economies from before the war too.

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

KIRK.
Secretary of State,
Washington.

1923, September 12, 6 p.m.
FOR THE TREASURY.

Notable progress has been made today in working out the mechanics of exchange control (the legalization covering which, incidentally, was largely the work of Rueff) and rulings as to what may or may not be done may be expected to clarify the situation further from day to day. American banks here have received informal assurances that they may operate directly through the Bank of France rather than through the "approved" French institutions. It does not appear probable, however, that they or other foreign banks will be officially "approved" at this time. We hear expressions of satisfaction at the sympathetic and flexible attitude being shown by the Bank of France.

(END SECTION ONE)

BULLITT

PEG
The reason for France adopting exchange control, Governor Fournier said, was not in order to curb speculation, but to enable the country to ascertain what its actual balance of payments is—that is, what France can finance in the way of war supplies from abroad which it needs, and what contribution to this financing can be made by its exports and services. The statement has been made by Reynaud, incidentally, that after making a careful study of the import requirements of France for the first year of the war as the National Defense authorities have drawn up in their report, he is confident that these needs can be entirely met by the amount of gold which came back to the country between the date when he assumed office and the date the hostilities broke out.

END SECTION TWO.
Secretary of State,
Washington.

1923, September 12, 6 p.m. (SECTION THREE).

The foreign exchange office today quoted a buying rate of 176.50 for the pound and a selling rate of 177.50. For the dollar the rates were 43.70 and 43.95, for the belga 748 and 753, for the Swiss franc 384 and 962 and for the florin 2318 and 2334. Today again a minimum of private exchange transactions were carried out pending clarification of the new exchange control mechanism.

We have been assured by the Finance Ministry that the restrictions on taking money out of France will be applied in a liberal spirit to departing American tourists. As you are aware (fourth from last paragraph our telegram No. 1894, September 10, 4 p.m.) the authorization to take out more than 5000 francs in French or foreign currency or other "means of payment" may be granted by the office of foreign exchange where there is evidence that greater sums were brought in. Americans now here who are leaving France may make application for authorization through their own banks and we are hopeful that the authorities will be lenient in the matter of "proofs" that the additional sums were actually
LAR-2, 1923, September 12, 6 p.m. (SECTION THREE) from Paris.

actually brought into France.

The security market was strong today with French industrials and internationals substantially increasing their gains of yesterday. This optimism was due in part to the news that Poland is holding firm, to rumors via Switzerland of dissatisfaction in Germany and to the continued gains of Wall Street. Rentes were hesitant at first but firmed to close practically unchanged except for the 1925 issue which gained 4.50 and the 1937 which was up 1.30.

(END OF MESSAGE).

BULLITT
Secretary of State
Washington

1616, September 12, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. I had a long informal discussion at the Treasury today about the liability of Americans who are "resident" in England to turn over their foreign (8) to the British monetary authorities and to register with them their American securities and I feel that they now fully realize that a decided modification in their regulations is desirable. A decision was promised shortly. Incidentally orally and written inquiry from Americans here have reached formidable proportions.

Two. The Bank of England has informally notified financial institutions in the city that non-resident foreigners holding gold in London cannot sell the gold and obtain a foreign exchange permit for the sterling proceeds. They were instructed to inform their clients who wish to dispose of their gold that they must arrange to have it shipped out of the country.

KENNEDY
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Consulate General, Singapore, Straits Settlements
DATE: September 12, 1939, 7 p.m.

Tomorrow there will appear in the Government Gazette notification of exchange control effective that day; the regulations accompanying the notification provide that all transactions in sterling exchange must be carried out through one of four authorized banks, which are all British. The transactions will be at rates spot and forward which the Financial Secretary authorizes. One of the four authorized banks must be selected by unauthorized banks for all exchange dealings - which includes the National City Bank of New York. Daily returns of transactions must be made to these authorized banks, as well as to the Financial Secretary. It is stated that the public "should" continue to contract for exchange through own bank whether it is one of the four authorized or not, but it appears that this is only a recommendation.

There will be no commission charge to the unauthorized banks by the authorized banks; they will collect from the customer a uniform commission which the banks establish.

It is stated that exchange will be made available for reasonable business requirements, which include payments for shipping.
shipping, insurance, travel and imports.

It will be necessary to secure permits for the export of moneys, gold and securities.

It is the feeling of the National City Bank that this measure will seriously prejudice its interests. The Financial Secretary, upon my informal representations, promised that he would at once discuss the question of including the National City Bank in the list of authorized banks with the Government.

PATTON.
Hello.

Operator: George Harrison calling.

HKJr: O. K.

G: Go ahead.

HKJr: Hello, Georgie.

George Harrison: Hello, Henry.

HKJr: It's not lunch time yet.

E: (Laughs) I know, but we've got a lot to do in the meantime.

HKJr: I thought you were hungry.

E: Henry, Ronald just told me that he'd talked with you. We'll be glad to talk with whoever you've got in mind. Who is that - Randy and.....

HKJr: No, me.

E: Huh?

HKJr: Me and my boys.

E: Oh, you want us to come over there?

HKJr: Yeah. I -- I want to sit in. Me.

E: Oh, I see. Well, wait a minute, I'll......

HKJr: I think this is serious enough that papa should sit in.

E: Yes, all right. What time do you -- would you like to have us come?

HKJr: The sooner the better. You've bought seven million in twenty minutes.

E: Yeah. All right. First-rate.
MR: Kind of expensive.
H: It certainly is.
MR: Yeah. Well, do you want me to hold on?
H: Yes, just a minute, will you?

(Brief pause)

Ah -- Henry......

MR: Yes.
H: We want to call the bank first and then come on over -- then -- or I'll come over anyway and I'll -- I'll see what the situation is here.

MR: Well, are the rest coming?
H: Some of them feel they ought to sit here and......

MR: Well, will -- will Ronald come?
H: (Talking aside: He wants to know if you'll come, Mr. Ransom.) Yes, he will come. So......

MR: Will Ronald come?
H: Yes, he will come.
MR: All right then. Well, then, you and Ronald.
H: Yes, all right.
MR: What?
H: Yes.
MR: And any others......
H: Yes.
MR: ......will be welcome, but I......
H: All right. First-rate.
MR: Thank you.
Hello.

Operator: Mr. Welles is at the White House and she doesn't know how soon he'll return.

HMJr: Mr. Welles is at the White House?

O: That's right.

HMJr: Well, as soon as he comes back I'd like to talk to him.

O: All right.

HMJr: Thank you.

O: Right.
Hello.

Operator: The Federal Reserve people are in Mr. Kieley's office.

HMJr: Oh, God! Well, just get everybody together. Let's see -- Hanes and Tom Smith, Burgess and Bell.

O: All right.

HMJr: By the time they all get together I'll be there.

O: Bailie?

HMJr: What?

O: Bailie?

HMJr: Bailie too.

O: All right.
Hello.

Operator: Secretary Wallace.

HJr: Hello.

Henry Wallace: Hello, Henry.

HJr: Hello. Henry, Johnny Hanes has been talking to me about the markets being closed in North Carolina because the......

W: On this tobacco thing?

HJr: Yes.

W: Yeah. The -- that's because the British pulled out with their -- with 50 million of purchasing power there.

HJr: Well, it's due -- they say they can't get foreign exchange. Now, if you care to send somebody over here to talk to our foreign exchange people, we'd be glad to look into it. I don't know if there's anything we can do but we could make a try at it.

W: I'll talk to Jack Hutson on that. I don't quite get what you mean by lack of foreign exchange. I think it -- doesn't it go straight to the fact that the British decided they could use their 50 million they usually......

HJr: Well, I'm just quoting Hanes and he said it was because they -- they can't get foreign exchange.

W: Who can't -- the British?

HJr: The British.

W: Why......

HJr: No, the......

W: You know, back -- I don't know whether you know it or not, a week ago Kennedy sent a cable over to the State Department which they relayed over here.
Yeah.

Indicating that they -- that a part of a definite plan that inasmuch as they have two years' supply of tobacco......

Yeah.

Then -- by the way, that's just merely a normal supply. That's what tobacco companies do in this country; but inasmuch as they had that and had other needs greater than buying their customary supply of tobacco this year to maintain the two-year stock, they just simply decided to pull out 50 million of purchasing power.

Well, then that -- then there isn't anything that we can do?

No. I called up -- I got in touch with Cordell.

Yeah.

I said we were -- the only thing that we could do on our own here was to -- was to make a commodity loan.

Yeah.

And that we could do that to help the market from going down through the cellar.

Yeah.

But that before we entered into that we wanted to call in some of the tobacco people. We'd probably have to do it. We wouldn't make the loan to the......

Well......

.......... firms when they're not in a position to store it and besides this would be tobacco that would be stored for the eventual use of the Imperial Tobacco Company.

Well, you're on top of it. I -- it evidently is not a foreign exchange problem so......
I don't think it is, Henry, really.

O. K. Well then, one less worry.

Ah -- oh, by the way, Paul's here with me. I've put him on that Fox matter. Let me see if he's got anything on it.

O. K.

Just a second. (Brief pause.) Just -- well, he -- he says he hasn't had a chance to get on it yet but we're -- I wanted you to know that we're right -- that we'll follow it right up.

Well, I -- I -- as I said this morning, I appreciate that.

And could you -- could you tell me one more thing?

Yes.

Did I get you right in saying that he was up before the Civil Service Commission right now?

Yeah, they're ready -- they've got all of his papers ready.

The Civil Service has his papers all ready.

They're all ready and I think I'm correct that they're in the office of your personnel director.

Oh, you think they're in the office of our personnel director?

I think so.

All right. Well now, I'll follow it up before the day ends.

As I understand it, you as the head of the department have to O.K. it.

I see.

See?
W: Well, I don't -- if that's -- if that's -- if that's where the thing is, why we'll get the clear -- the thing cleared up before the day is ended.

HMJr: Well, as I -- as I understand it, the Civil Service -- they're all ready, but it has to be approved by the head of the department or his personnel director.

W: I see.

HMJr: See?

W: All right, Henry.

HMJr: Thank you.

W: Fine.

HMJr: Thank you.
RE PROPOSED LATIN AMERICAN LOANS

March 12, 1938.
8:30 p.m.

Mr. Hanes
Mr. Peis
Mr. Stewart
Mr. Viner
Mr. Riefler
Mr. Baltie
Mr. Surgeas
Mr. Cochrane
Mr. Bernstein
Mr. Foley
Mr. White
Mr. Cotton
Mr. Pehle

(Reading) "1. With respect to the first resolution:

"The Treasury approves the suggestion that an Inter-
American Advisory Committee be created. The Treasury
feels that the first task assigned to the Committee
might well be to study and report on the situation
which is resulting from the impact of war on the
financial and economic relations between the American
Republics. The Treasury suggests that the Committee
be asked to make a report available in time for the
Guatemala conference to be held in November. The
continuing functions of the Committee may best be
developed as a result of experience.

"2. With respect to the second resolution:

"The Treasury confirms the understanding of the
Department of State that, in view of all the cir-
cumstances, the Stabilization Fund should not be
made available for a large majority of the trans-
actions which are contemplated. The Treasury knows
of no other source of funds, except some small
balance in the hands of the Export-Import Bank,
which may be available; it therefore agrees that
new congressional authority should be obtained if
the United States is to provide funds as contemplated
in the second resolution.

"In these circumstances, it would seem to the
Treasury unwise for the United States to make any
statement at Panama, before new congressional
authority is obtained, inviting the American Re-
publics to make available funds as contemplated
in the second resolution."

Regraded Unclassified
How do we know that is the State Department?

Welles: Because Mr. Welles stated that to Mr. Burgess, Mr. Cotton and me. He said in view of what Mr. Morgenthau said, he assumed that there would have to be new legislation.

H. E. Jr.: Well, as far as I goes, nobody can argue about that.

Welles: Now, the conversation with Mr. Welles made it clear that this Committee was to be formed and its money - the money was to be used for strictly exchange and emergency purposes and was not to be used in connection with any general settlements, such as were contemplated in your letter of August last. It was not clear because Mr. Welles didn't tell us what purposes he had in mind other than just general phrases that appear on that piece of paper. We tried to get a little more background so that we'd understand just what he wanted done. He said these resolutions were a very small part of what he was going to do at Panama, but he thought they were important.

Now, there is no doubt that the chief importance in the resolutions which he suggests lies in those words about making monies available. We didn't realize what that phrase meant and asked what sum he had in mind, and he said 200 million dollars, and it is around the question of making directly or indirectly a statement about that 200 million dollars that, as we see it, the chief problem of the Treasury arises.

Mr. Welles said, although it doesn't appear in the paper, that this 200 million dollars, he thought, should be obtained by taking 100 million from the stabilization fund and 100 million which he said - which they wouldn't give us for the Export-Import Bank. Putting those two things together, I think in his mind - and you check me, Mr. Burgess and Mr. Cotton if you don't agree - that he thought of half the problems as being exchange problems, roughly, and the other half would be special things like loans. I don't think he worked it out exactly in his mind, but that was why he happened to make up the 200 million the way he did.
Now, the reason we think that it would be unwise for us to make any statement at Panama arises because it is only six or seven weeks ago that Congress turned down the Export-Import Bank request, and because September 21st is going to come before it seems to us likely that any new legislation could be presented, even if Congress were called, and we feared that even if we went overboard 100 percent on the advisability of such a 200 million dollar fund that we would arouse antagonism in Congress by having someone at Panama say that the Secretary of the Treasury was in favor of 200 million dollars of United States money being devoted to these purposes. In other words, we doubted the time element.

But he doesn't mention any figure.

No, but you couldn't doubt that a figure would be mentioned in every hallway in the hotel, if there is one at Panama City, which I take it there is, where this conference will be held. In other words, that is a very large sum of money and a very interesting sum of money.

You fellows spend that in two days, half of it.

Cut of one pocket into the other.

Now, we also have felt this way about it: it is talked about in the resolution as a fund which would be made available by voluntary contributions from everyone. Our contribution is 200 million dollars. We may wrongly be assuming that the other twenty nations would each pay a poll tax of one dollar. There would therefore be 200 million dollars and twenty nations paying poll tax. If we are wrong in that to that extent, our thinking is misdirected. Mr. Welles may be able to tell us tomorrow if the Argentine wants to put up 100 million of this thing. That would make quite a different picture.

We have also gone on the understanding that, or gone under the idea that this Committee composed of five members, one of which would be a member from the United States and the other four from some Latin American country, would have, as we
say in paragraph one, a real job in studying what the war situation is, what effect it has had on these various countries. Now, Mr. Walles talked about the dislocations and troubles of the war and used adjectives which made one feel that there were panic conditions in the South American countries. Now, I am sorry to say that we haven't as much evidence as the Treasury should have of what conditions are there. We will have within a few days, but such evidence as we have gleaned here and from our friends in New York is rather amusingly to the contrary. The exchanges have strengthened, because most of these countries are countries producing materials where their nationals think, and other people think, that they are going to do very well if there is a war.

There are two exceptions to that, Brazil and Peru, where in Brazil the cotton situation makes people somewhat nervous and there is a like kind of difficulty in Peru, but even there there seems to be something much less than a panic in the exchanges and no signs of real distress.

I had an amusing confirmation of that general thing this afternoon when a man told me that his company had decided to buy a very large number of bonds of a company that does business in all South American countries, the American Foreign Power Company, to be specific, because in view of the improved exchange conditions resulting from the war, they would do so much better in their ability to get their exchange out this next year that they felt that their range would be 25 or 50 percent higher effective dollars than they otherwise would. I say this not to say that there aren't going to be real needs develop, but merely to say at the end of ten days, after the war is started, for the Secretary of the Treasury to state that he believes the 200 million dollars should be appropriated by Congress for needs of this sort, we have to say to you frankly we haven't the background of exact facts, of any facts, specific facts that would justify that. We are working on it very hard, but we haven't the facts.

Maybe when Herbert Feis gets here tonight he will tell us.
Maybe he will. We tried to get some of them the other day and they didn't seem to be there, but that may have been because we didn't ask the right questions. Now, I say that the trouble with what I have been saying so far is that it is pretty negative and everyone of us feels that it is a matter of very real importance, of great importance to the future of our country that its relations with South and Central America should be developed and developed on a basis that will result in increased goodwill. The problem is, how can that be obtained? We think one very good way that it can be obtained is outlined in your letter of August 1st to Mr. Walles.

We liked that letter.

We liked that letter very much. We didn't have anything to do with writing it and we have read it with great care and I must say....

We think it was a pip.

We think it is an extremely good letter. That is one way of doing it.

Another way of doing it is by forming this Committee.

This Government has gone Committee-mad.

Committees have, I suppose, at times done some good, but in order to have a committee accomplish a great deal, there must be - it must have some specific object, not just some general desire, and until there are specific problems, one would expect that this might be just another committee.

Now, we think, however, that paragraph one, we should go along with it. Maybe the State Department has specific ideas. Maybe this committee will be a perfect whiz and will be able to accomplish a great deal. We phrased this, as you see, so that it might not be a permanent committee unless it justified itself. I mean it might or might not. The continuing functions of the committee may best be developed as a result of experience, is the way we put it. There certainly is need and great need in the Government at Washington of a thorough knowledge of conditions as they actually exist in
South and Central America for the purpose of helping our business men and our citizens who want to do business there.

Now, whether the Bureau of Foreign and Domestic Commerce is set up in such a way as to make that possible, you probably know better than we do. Whether the Latin American division of the State Department has the facilities, you probably know better than we do. If, in fact, neither of those places, which would seem natural depositories for such information, have it, then there is a place clearly for a well-defined bureau which would have those facts available to people wanting to do business with South America.

H.M. Jr.: May I interrupt you a minute?

Failie: All right.

H.M. Jr.: Before Feis comes, I wonder if this wouldn't be a sort of middle-of-the-road plan, and that is to have him go down and make a very flowery statement as to finances and our interests, and so forth, and then appoint this committee and this committee should make a study and bring that report when they meet in November in Guatemala.

Failie: That is our theory.

H.M. Jr.: But not say anything about the stabilization fund, I mean just don't say anything about that, see?

Failie: We don't want to say anything about it.

H.M. Jr.: I don't want to show Feis these papers. I don't want him to have them, but just go along and say fine.

White: I think we can do that by making very few changes.

H.M. Jr.: My thought is, don't show Feis this piece of paper, but....

Failie: You are going to be asked to commit yourself, that is the point.

(Mr. Hanes and Mr. Feis enter the conference)
H. M. Jr: Herbert, you can help a lot, because we are all kind of floundering here. I wasn't at this meeting the other day and I wondered whether you could tell us if Mr. Wallea made a statement of offering financial aid, and the committee, and so forth and so on, how much is this a mouth-bid, how much is it a gesture, or how much does he definitely want to commit for the Government at this time in Panama as opposed to possibly a study group between Panama and Guatemala in some group that might make a report at Guatemala? Does he want a study group announced, that we want to cooperate, or does he want a firm commitment at Panama? If so, what kind?

E.M. Jr: The latter. I don't think Guatemala is in his mind at all except as a possible occasion to possibly work out further things that can't be done at Panama.

Vois: You don't mind my getting right down to business?

E.M. Jr: Oh no, I have been following for several weeks on this. I speak completely without hesitancy and I know everyone in this room....

Vois: You know everybody personally.

E.M. Jr: Exactly. I know everybody retains counsel. The thing comes, to the best of my understanding, quite originally and quite directly from the White House. According to my understanding, in the form in which it first came was that there should be a joint stabilization fund of 200 million dollars and its purpose would be to help in the various difficulties of these Latin American states who are facing as a result of the trade from monetary dislocations attendant on the war, and we sat down with that information quite some time.

Well, we have gone over this enough so that I know your views and I was near enough in agreement with them to emphasize the fact that a joint stabilization fund was impracticable and that - I am a little bit fuzzy tonight....

H. M. Jr: Take your time. Aren't you feeling well?

Vois: Oh, I am feeling perfectly well but it has been a long day.
And that your preference was always for bilateral handling of these situations and reasons in support of those things are so obvious and so compelling that everybody accepted them. Then came the job of maintaining those essentials, by which I mean adequate care and control and study of every particular transaction that might present itself, and the virtual necessity at this time of showing a rather decisive indication of our willingness to do something and the high desirability, which as far as I understand it is very much in the President's mind as well as Welles's mind, of giving it to a certain extent a form which makes it a joint interest of the American Republics.

I will talk one minute longer and then I am through.

That is in correspondence with the whole underlying idea of the Havana meeting. At Lima, foreseeing possible trouble in Europe, the Republics expanded beyond the traditional scope of their agreements to try to foreshadow a real effort to work with each other to make the policy of each other a mutual policy, more or less in concert, in face with the European war, and that is embodied in certain very loose texts of certain importance. Now, as always with South American resolutions, they wear a certain air of unreality and only an advance will prove whether they have any substantial reality or not. Now, a crisis comes along. The provision in the Lima agreements for consultation swings to everyone's mind and this Havana conference is by no means outreaching.

You mean Panama, don't you?

Yes. This was the contingency we talked about at Panama. I mean that we talked about it at Lima. It has come and we said we would meet to discuss it and see how far we could concert policy and help each other in whatever difficulties we were faced with here, so let's do it.

Now, in the minds of those countries there is the possibility of political cooperation and also the possible economic cooperation, and it is that that creates the high advisability of finding something, at least in form, that has a certain aspect of joint effort. The thing that we handed Europe -
and I agree with anyone who wants to say it is a funny document — was a compound of the effort to create this sense of joint interests and still retain the essentials of what you have always insisted on. That is about the history.

H.M.Jr: Let me ask you a few questions and in that way try and enlighten myself. We are not going to argue about the principles, because that isn't for me to argue as to joint efforts. I mean that is all to the good.

Now, you were talking about one phase of the financial situation. Now, let's just for the moment say we had "X" millions of dollars. We had better say we have it or we could get it from Congress. Now, we have got 100 million dollars. Is it in your mind or Mr. Welles' mind or the President's mind that the other country is to be a bank for North and South America? What are we going to do with this money? Are we to put up all the money? Are they going to put up any money?

Feis: Well, first, definitely no financial fund or fiscal fund that is jointly owned or controlled, that is definitely not envisaged.

H.M.Jr: That is news. I thought it was to have been a joint subscription.

Feis: No.

Maille: Oh no, it is very clear.

Feis: I know....

H.M.Jr: Somebody around here was saying....

Maille: They put up something but each one keeps....

Feis: There is no common part of any kind.

Burgess: Say here is a sum of money which we might use in an arrangement that we might make with this other country. We make the arrangements at the same time somebody else does. They put it up, but they still control it.
They don't actually, as far as I can visualize this, they wouldn't actually put it up. They simply say at some appropriate time that they have a certain available sum which they might use in response to particular requests if those requests seemed to them well founded. That is about all it comes to.

Let's say that we have 100 million dollars. What use is that money going to be put to, that is what I have in mind.

That ought to be talked through a little bit further before we leave for Panama, but I am fairly certain that we would come out with the answer that we can more or less foresee tonight. We would use it in response to particular requests for one or all of these types of assistance: short-term credit for certain types of exports; long-term credit for other types.

You mean American exports?

That is right. Short-term credits for a certain type of exports; long-term credits for other types of exports; requests of slight sums for building up simple banking reserves; and possibly some sums as exchange management funds. Any one or all of those four types of requests are likely to come forward in the course of the next year if we make this declaration. In fact, they will come forward whether we do or not. They are crowding in on us every day now.

What I get is that this is to be a fund which - to do banking business with the twenty-one Latin American countries. Is it governmental?

Primarily. It would go under transactions that were of an inter-governmental nature. For example, take the last piece of business that the Export-Import Bank did with Haiti, a million and a quarter to the Standard Food Company to develop its banana plantations down there. It is making an astonishing difference in the Haitian situation. They have pledged the whole company, not only the Haitian properties, but the whole company, to the loan. Why the National City Bank shouldn't have taken it is only accounted for by the complete panic that the New York banks remain in. I visualize there might be a fraction
of it that would go to private enterprise, but my guess would be that three quarters of it would be inter-governmental.

H.M.Jr: It is the sort of thing which up to now the Export-Import Bank has been doing.

Feis: No, I would say that the first two, short-term for certain kinds of exports, long-term for other types of exports, import-export banking - and now I am improvising - the other two, possible loans for reserve purposes or possible small loans for exchange management purposes. I should certainly think that Treasury had the responsibility in business.

H.M.Jr: Is this to be - if we again had the money, who is to make all of these deals, which department of the Government?

Feis: That, too, is a question that has to be talked out. It's a way over my head, especially on the basis of the last two weeks. To me it is quite imperative to put it as bluntly as I can, that you and Jesse Jones and Sumner Welles form a committee of your own, meeting together yourselves, and decide what is what. That is the only machine that will work.

H.M.Jr: Let me ask you this: did you yourself advise me during the Brazilian thing that this type of business should not be done with the stabilization fund?

Feis: Correct.

H.M.Jr: I think I am correct in getting this stabilization fund removed. I think I made the statement to Congress that I would not make any loans to any foreign countries without coming to Congress and getting their sanction.

Feis: May I go back a minute? When I said "correct," I now want to correct my "correct." I was definitely of the opinion that that particular 19 million dollar transaction of Brazil should not be undertaken by the fund. I felt at that time, Mr. Secretary, that you really had misunderstood my views on the thing. I fully felt then, as I feel now, that loans for simple banking reserve purposes
and possibly for exchange management purposes, the fund could undertake - my particular controversy swung around this deferred exchange clearance which I knew was going straight into the pockets of six or seven large American houses, and the figures I have seen since are even more that way than I thought before and my feeling was that that was subject to criticism.

Now, if you wanted to take the position that out of the fund, at any rate, you still didn’t think you wanted to make loans, either for reserve purposes of other banks or for exchange management purposes, I wouldn’t - without consulting Congress - I wouldn’t differ seriously with you.

Welles: Mr. Welles made that statement to all of us the other day when you were there, Mr. Feis, saying that he assumed the Secretary would feel that way. He didn’t use the reserve purpose figure.

Feis: In the Brazilian thing, my whole mind was on that 19 million dollar transaction.

H.X. Jr: Well, we will go back to that, but what I want to say is this: what the Government wants to do in Panama is to make a bold gesture and these twenty-one countries are not interested in our internal difficulties, our preferring to do this kind of business and some other agency could do this kind of business, they want to know if we are going to do this thing and they get the money when they want it. How we divide that among ourselves, they don’t give a damn as long as they can get it.

Feis: That’s right.

H.X. Jr: I take it what the President wants to do - he called me today - he simply said, "Give Welles something." He didn’t mention any figures, but he said, "Give him something." Now, you have worked with me long enough to know that I have tried to find ways how to do it and not how not to do it, but for the moment the fund looks to me - for the moment the President is on record....

Feis: I give you my personal judgment. I don’t think you can go back.
H.M.Jr: Furthermore, we did ask Congress for 100 million dollars for North and South American Export and Import Bank and they turned us down.

Feis: Here I am just repeating what Jones' version of that is. It is not....

H.M.Jr: Foley would know. Listen to this, Foley.

Feis: I have been over this twice with Mr. Jones and his position is, in the first place, still, and he wouldn't commit himself as to how much or how little a bank can do. He implied that a good many of the bank's commitments of the RFC....

H.M.Jr: He said that again.

Foley: That is the position that was maintained right straight through.

Feis: Then as to the episode on the Hill, he emphasizes the fact that the thing was voted on favorably by committees in both Houses and that it was only lost because the whole bill was lost.

Foley: That is right, it passed the Senate.

Feis: Here is the sense. The 100 million in one case and the 75 - it was amended to 75 million in one of the Houses. He said he had it all arranged to bring it back to 100, that that would have gone through if the whole bill hadn't been lost.

Foley: There was a vote on that amendment in the Senate, on the addition of 75 million to the capital of the Export-Import Bank. I think the vote was something like 44 to 31, but it was a favorable vote and there was 100 million included in the House bill that was reported on favorably, and if we could have gotten to the floor in the House, I think we would have passed the bill and I think they would have put it back to 100 million in conference.

White: But Congress did not pass the bill.

Foley: No, it was not passed.

H.M.Jr: The President has stated to me again and again that
He could re-finance the Export-Import by Jesse Jones.

Feis: You said Foley.

H.M.Jr: I meant Jones.

Cotton: It has only been talked up to the extent of about 30 million dollars.

H.M.Jr: Let me just ask this question: do you believe, Mr. Foley, that Jesse Jones could finance it at a hundred million or two hundred million, that it could be made available through the agencies which he is the head of, for the kind of loans that Mr. Feis is talking about here for the twenty-one countries?

Foley: It would all depend on the type of transaction. I should say it would be rather difficult for Mr. Jones to make available anything like 200 million dollars for this purpose.

H.M.Jr: How much could he make available?

Foley: He is talking about shifting commitments that he has against this 100 million margin of the Export-Import Bank over to the RFC, and to the extent that those commitments haven't been taken up and they are still outstanding and they can be shifted, he will free the lending power of the Export-Import Bank. What the limitations are and what the total figure might be, I am not in a position to say, Mr. Secretary.

H.M.Jr: Is Jones back in town?

Feis: Yes. He also has in mind that some things he can do directly through the RFC are, for example, there is a small transaction on now involving the purchase of ships by one of the Latin American countries. It is a deal that has much to recommend it. My guess would be that he can do that directly.

Foley: Through his loans to industry. He has the loans to industry section, and if it can be worked out through that channel, why he has almost unlimited facilities.
Cotton: He eventually has to have a dummy corporation to do it through.

Weiss: Take this particular case, Joe, the Brazilian Government want to buy some ships from an American concern. The American company gives the mortgage on the ships. It is a very advantageous deal for Brazil, because they have negotiated before the crisis, you see. Now, if the RFC puts up money there, couldn't the RFC give money directly? It wouldn't need a dummy corporation for that, would it?

Cotton: Yes, but if it was a different type of transaction - I mean that is a rather special case, it seems to me.

Foley: You have got to get an eligible borrower. That is what Joe means. If it is a question of lending to a South American country, he wouldn't have that power, but he might be able to set up some kind of a corporation here that would act as a medium for the South American power and in that way it might be worked out.

Foley: In some instances it wouldn't have to be a dummy corporation. It might be an actual American corporation.

Cotton: He is prohibited from taking foreign collateral except in connection with financing the export of agriculture and it all has to be done in the record.

E.W. Jr: Well, it seems to me that in order to get you fellows off with something as immediately as possible we ought to get hold of Jones the first thing tomorrow morning. Mr. Welles is coming to my office at 11:00. I will try to get hold of Jones at 9:00 o'clock.

Weiss: I have had two talks with Mr. Jones on this thing. One thing we gave him is what I think Mr. Welles will bring over to you tomorrow, a text of what they thought the American representative could say down there. Mr. Jones has sent back a revised version of that, which is very much of an improvement and...

E.W. Jr: This is something different than I have seen.

Weiss: It is not an alternative. This would be the resolution in addition. The American representative would have to make some statement.
Oh, you have already sounded Jones out on that?

You don't know....

Thinking that I was hopeless?

You don't know half what a hole I was in and I moved a little bit on my own and I was there on other business with Mr. Jones and I just stepped out.

Does Jones think he can do this?

He thinks he can do part of it. I think he is looking to the Treasury to do some of it. The rest, I think - you see these things don't come at once. There are always ways - not always but almost always - that if you need 30 or 60 days more you can put it off that long.

Do you have to mention a figure when you go down there?

No, in fact, I think it is highly inadvisable to mention it.

You traveled the same road, evidently, the last week that I have traveled the last fifteen minutes, that is that Jones is the best outlook.

No, I think that there are certain types of things to overcome before America does that, that only the Treasury can do and should do. I don't quite know how it is going to do it.

We stood ready to go to Congress and ask them for 50 million for Brazil, but we were never asked to do it.

I think that the Neutrality question is cut off the way. I think this is what is in the back of everyone's head. It would be possible to go to Congress if the President so wishes and ask for a hundred million dollars for the Export Bank for these purposes, and you, in accordance with what you told Congress, could ask authorization from Congress to use 100 million dollars either from the fund or from general Treasury, or from a special appropriation for other purposes.
Well, I got 100 million dollars. I don't have to
tap the stabilization. The Federal Reserve has
130 million dollars gold of our money, which was
given to them for industrial loans. One hundred
ten of the money is free. We don't want to be too
sharp. We will take one hundred.

Feis: I think the underlying thought is in the spring the
two things would be brought together before Congress
when the Neutrality thing was out of the way.

H.W.Jr: Don't you think we could take that money from the
Federal Reserve?

Feis: I presume you don't want to do that without first
consulting Congress.

H.W.Jr: We would have to.

Feis: I think that is the President's underlying thought.

Viner: Herbert, is it your notion that you make commitments
in general terms, not specific, and that then in
order to carry out these commitments you will have
to get legislative authorization?

Feis: We might commit ourselves in general terms. We can
go on for the next 90 days with what funds we have
got left in the Bank and with what Jones can turn
over, and by spring if things go well, Congress will
back the President to the extent of letting the Bank
have a certain amount and authorizing the Treasury
to do a certain amount. That is the general back-
ground program and it seemed to be quite a feasible
program unless the President gets licked on it and
then the Neutrality - if he gets licked on that,
there's going to be so much go to pieces anyway.

Viner: The State Department is prepared to take the risk
of making more commitments without prior legislative
authorization? I am just asking for information.

Feis: If you substitute the President for the State Depart-
ment I would say that is right.

Viner: I would say that is all right.

H.W.Jr: That is what four days of Norway did for Jake.
Fallis: Mr. Feis is getting very moral. Mr. Feis, in order to be clear in my own mind, as I see it, this is the situation where Jesse Jones is the bridge; in other words, he has certain facilities in the Export-Import Bank which he can make available.

Feis: And carry through in the next 90 days.

Fallis: Those would be rather commercial things, wouldn't they?

Feis: That is right.

Fallis: I can't see a gold fund for Honduras being taken out of the Export-Import Bank. So all those third or fourth class things that you were talking about would not be - they will come with the flowers in the spring?

Feis: Quite right.

Fallis: The fall and winter is to be a commercial one, I mean, and to us that is a....

Feis: After all, there will only be three months left. I can pretty nearly tell you now what two-thirds of the business will be that will come up between now and the first of the year. Five million for Chile for agricultural equipment and one or two small transactions for Brazil, and there is a scattering of stuff of that kind.

R.M. Jr: If I can get hold of Jones to come at 10:00, can you be there at the office at 10:00 tomorrow? Welles is coming at 11:00 and that will give us an hour's head start. Or would you rather have me talk to him alone.

Feis: Yes.

R.M. Jr: Would you?

Feis: I think so. There is a certain point at which - yes, I think so.

R.M. Jr: Do you want to go and call up for me, Ed?

Foley: Yes.
'Talk to him a bit and ask him if he can come to the office at 10:00 tomorrow morning and be prepared to stay for a couple of hours, and tell him what we are talking about and ask him if he will bring his papers and his good humor with him.

You (Feis) are coming at 11:00 with Welles, aren't you?

Feis: Yes.

E.M. Jr: Will you shoot over to me the stuff that you have given to Jones so I will have everything?

Feis: Just two paragraphs.

E.M. Jr: Could I have that?

Feis: First thing in the morning.

E.M. Jr: If Welles talks the same way you talked, I think we will get together.

Feis: I think that there is really an infinite amount of....

E.M. Jr: You want some window dressing, don't you?

Feis: Yes, which ultimately we sincerely mean to use. I think we can use up to 200 million dollars in Latin America over the next two years on carefully selected projects without losing too much of it.

E.M. Jr: Of course, I have been talking about this for two years, so it is music to my ears.

Feis: Two hundred million is my limit. I don't like to see us pile up....

E.M. Jr: What is your limit?

Feis: Even two hundred, I think, is too much. I would like to see us hold it down to half that if we can.

Feis: You can hold it down to those certain projects which you finally think are really useful.

Feis: Getting out of the State Department as an economist, I would like to see it held down to 100 million
dollars, comprehending all kinds of loans, credits, advances and transactions.

H.M., Jr: Now, may I ask a question?

Viner: Are you going to make two-billion-dollar statements and make 20-million-dollar loans?

Feis: All right, Jake.

H.M., Jr: That is very Vineresque.

Feis: Jake, what would you do?

Viner: Things are going to move very rapidly in the next six months. If you make a big-sounding statement, you will have to carry it through. I'm not opposed to making a big-sounding statement, but I do say we ought to be prepared to carry it through on a fairly substantial scale. We don't know what the turn of events will be next spring or six months from now. You make sort of promises, then some really major crisis can develop - blow up in a few weeks in war-time - and you have got a darn good case up under the terms of your statement for help and then you tell them we haven't got the funds and you can't do anything.

Feis: Jake, you won't find this statement a very large promise. It is a very modest statement that we have prepared. No one could possibly deduce from it that we are prepared for a very large program down there.

Viner: It seems to me 200 million dollars does not necessarily sound as a large sum to pay to insure the goodwill we want in Latin American countries at a time like this.

Feis: This statement, as it is drafted, sounds like you have interpreted it to mean less than 200 million and not more. Our rough draft to Jones, as revised, sounds like not more than 200 million.

Beallie: Mr. Feis, do we have any reason to believe that any of the other nations would chip in and - in making funds available?
Feis: I think that a few of them will announce that they hold small funds, particularly Argentina.

Mailie: It will probably be like contributions in a church plate, they will all be anonymous. In other words, they will say they are going to have some sums.

Feis: That may be, or Argentina may stand up as long as it knows it is going to control the disposition of this thing and say that, yes, it has 20 million or something of that sort that it could use.

H.M., Jr.: Now, let me....

Mailie: But you are not planning on saying two hundred?

Feis: We are not planning on mentioning any figure, and the statement we have got in mind is a very moderate statement.

Burgess: More moderate than this?

Feis: The resolution?

Burgess: Yes.

Feis: Well, the resolution is, I think, modest.

H.M., Jr.: Supposing somebody raises the question down there about the private debt?

Feis: We have only two....

H.M., Jr.: I mean Government debt to private people.

Feis: There are twenty-two American Republics. There are only two of them in connection with which - no, I take that back, there are three in which the private debt situation is likely to arise as a factor in this; Brazil, Colombia and Peru. Now....

Burgess: Chile?

White: Mexico?

Feis: Oh, Mexico is a dead dog as far as the funded Government goes. It is a dead dog. We are not going to
bring that up now. Colombia negotiations are on now. They have come to a lag. We are going to try even in the next day or so to get life in them again. Colombia could pay without any serious difficulty whatsoever and I think simply this, that we would have to avoid the Colombian situation until and unless Colombia came to us and put a proposal to us and then bring up the debt situation, and it is my own view that you have got a totally unjustified, calloused default from which Colombia herself will suffer in the long run. Brazil is more complicated.

Faulks: There is a million dollars, then, so I heard, sitting in New York.

eis: And there is little doubt that they will go on with some other very small minimum sum, but how to work out the Brazilian thing - it is the toughest one in the field, especially since the immediate effects of this war crisis on Brazil are less favorable than on any other American Republic.

Faulks: I presume Peru...

Fels: They get the benefit of the increased sugar price. She is the worst defaulter in the sense that she hasn't at least given a decent intention of willingness to pay. If the power were mine, I don't think I would respond to a definite request until we got some indication from Brazil that she is going to do something on that public debt, and one thing that I always mean in this matter is that if a country with a future like Brazil - its future is tremendous. That is an Empire, that country. It is another United States. There isn't the slightest atom of doubt in my mind. If that country - a country that big simply cannot leave its government debt in complete default over a long period of time. It cuts itself off from all sources of private credit and makes itself dependent on other governments, and it is such an obvious blunder that even from the standpoint of the welfare of Brazil - I think we should to a certain extent bring that home, but I admit it is different.

Fumosa: Herbert, when Mr. Welles - when we were there the other day - he said very politely that this
arrangement had nothing to do with private debts or commercial arrangements. He meant that officially it had nothing to do with it, but when you come to make these negotiations in each instance, you can't avoid having such a situation.

Fels: No, you see in this matter of to what extent or when and how to take account of the private defaults, I, with Secretary Hull's support, have had to fight not only the Secretary of the Treasury but also the Undersecretary of State, who also would be inclined not to consider it an important element in any situation. Welles was expressing his own honest, direct attitude.

R.M. Jr: Well, if I get this thing, it is cleared up a lot for me, and I take it that you people are convinced that Jesse can do something.

Fels: Something is general enough.

R.M. Jr: And that is all that you want. I mean you want enough so that if you go down there and say to these people, "We are prepared to offer you cooperation," and 20 to 30 or 40 million dollars worth of business rolls in between now and the first of January, you think that is the most for the time due to negotiations and trading and everything else, that is about all you need?

Fels: Yes, that is all we need for the rest of this year.

R.M. Jr: And the first of January we would ask Congress for another million?

Fels: And Welles and the President are ready to take the gamble that by the time spring comes around we will be in a more effective position. They certainly recognize it is a gamble. I take it that the President does; he must know.

R.M. Jr: There is nothing in Welles' mind, I mean you have completely dynamited the idea out of him that this sort of thing should come out of the stabilization fund?

Fels: Well....
Bailie: Welles stated to us that he was clear....

Feis: I think we have told him fifteen times about your testimony before Congress.
September 12, 1939
2: 45 p. m.

Present:
Mr. Leroy-Beaulieu
Mrs. Klotz

Mr. Lochhead
Mr. Cochran ) at very end of meeting

HM, Jr: What I wanted to say to you, Archie spoke to me.....
Mr. L-B: Yes.

HM, Jr: .... and told me that you people un-officially were worried about this purchasing business.
Mr. L-B: Yes.

HM, Jr: What I want to say to you is this: it would be very pleasing to me....
Mr. L-B: Yes.

HM, Jr: .... and to the President.....
Mr. L-B: Yes.

HM, Jr: .... if your Government would set up its own purchasing agency ..... 
Mr. L-B: Yes.

HM, Jr: .... along the line of the Universal Trading Corporation ....
Mr. L-B: Yes.

HM, Jr: .... which is doing the purchasing for the Chinese.
Mr. L-B: Yes.
HM, Jr.: Are you familiar with that?
Mr. L-B: No; I am not.
HM, Jr.: Would you like to know how that thing works?
Mr. L-B: Yes, surely!
HM, Jr.: Well, if you would like to know how that works -- who would be the best man, Mrs. Klotz?
Mrs. Klotz: Mr. Lochhead knows all the workings of it.
Mr. L-B: A French corporation functioning along the line of an American corporation?
HM, Jr.: A corporation organized under the State of New York.
Mr. L-B: So you mean to set up an American corporation?
HM, Jr.: An American corporation controlled by the French with preferably French Treasury officials. See? Then you see, what we do for them is this: they ask us -- they asked us to get them a manager. We got a retired Navy Pay Officer, a Captain, whom they hired because he knows Captain Collins who is in charge of our Procurement.
Mr. L-B: Yes.
HM, Jr.: You know Collins.
Mr. L-B: Yes.
HM, Jr.: They want to buy so many yards of cotton. They come down, entirely unofficially, and ask "Is this a good price?".
Mr. L-B: I see.
HM, Jr: And we advise them. And we can't do that for you if you take some bank, private or public, bank.

Mr. L-B: Well, I see.
HM, Jr: You see?
Mr. L-B: Yes; very well.

HM, Jr: And the President has spoken to me two or three times. For your information, I passed the same word along to the English. I told them that if they would do it this way, then we could be helpful to see that, if you want this or that, we would not be competing; that your Government would get a fair break. We can't do it if you are going to use a middleman. You know the fight I made about the planes and how well that worked out.

Mr. L-B: Very well.

May I ask a question. Just now, what we intended to do was not to use a bank as purchasing agent. It was to send a mission here, a commercial mission, and which will be I think headed by the Commercial Counselor, and then we will get in touch with the industrialists here and ask advice either of you or somebody else. But if you think we take this path and it would be more difficult to give us the information which we shall need ....

HM, Jr: If you would take a look, and I shall be glad to show you the incorporation papers and everything else.

Mr. L-B: Yes.

HM, Jr: To show you how this Universal Corporation was set up. It has worked beautifully. They have bought millions of dollars, bought automobiles lower than the United States Government, has bought trucks. They have gotten better prices even than we. Their copper is contracted for at

Regraded Unclassified
nine cents and -- well, no organization could buy any better than they have, because we have unofficially advised them. Never wanted it to get out, but feeling it is all Government we did not object to their coming down and telling them well this is too much, etc., and we can help direct people to the proper places.

Mr. L-B: I see. You mean you can do that much better, easier, if the people who come to you are members of a corporation like that than if they are official representatives of the Government.

HM, Jr: No. I don't make myself quite clear. This corporation is owned entirely by the Chinese.

Mr. B-L: But it's under the law of the State of New York.

HM, Jr: Under the law of the State of New York, which is a little bit of a buffer. But the thing we hope you won't do is to use a private bank or some other organization like that. We would like to have an official French buying mission here....

Mr. L-B: That what we intend....

HM, Jr: ... and we feel that this corporation of the Universal has worked out so well that all I am suggesting is that we turn it inside out and show it to you....

Mr. L-B: I see.

HM, Jr: .... Just to show you the whole thing as it works.

Mr. L-B: Yes, but the men -- but I want also to make myself quite plain. Just now, if we had an official mission headed by the Commercial Counselor of the Embassy and we could use a bank as an intermediary, if those people wanted to buy cooper, went to you and asked you or any of your Procurement people "Is that a fair price?", would it be as easy for you to work with them?
HM.Jr: Not quite.

Mr. L-B: As if we created a corporation along the lines of Universal.

HM.Jr: It would be a little better. Just the way the Russians have the Amtorg.

Mr. L-B: Yes, I know about that.

HM.Jr: Just the way Amtorg ....

Mr. L-B: You think it would be better, because it would be less official?

HM.Jr: I think so.

Mr. L-B: Yes. Well I see that, because, as you know, we have been assailed by many banks who have given us their offers as purchasing agents -- Aldrich, Morgan, and all these people. I told them that we did not intend to have any purchasing agency. After that they ask if they can be paying agents. Payments is something entirely different.

HM.Jr: You don't need it. You would be the paying agent.

Mr. L-B: Yes, but we need also someone to pay the American bank. I don't pay money directly myself.

HM.Jr: Could you use the Federal Reserve?

Mr. L-B: Yes, but paying agency is not much.

HM.Jr: But the actual contacts. If the contacts could be between the Continental Corporation, which is wholly owned by the French Government, and the manufacturer, and a representative of the Continental Corporation comes down and says to us, "We are going to buy a million yards of this or that, is that a fair price?", I don't see why we couldn't do the same thing for you as for the Chinese.

Mr. L-B: That's very kind of you. Mr. Lochhead
told me they had had some very good prices. The only think I can tell you is we had intended to set up a commercial mission headed by the Commercial Counselor, an official mission, so I don't know whether we shall have to change it.

HM, Jr: Familiarize yourself with the Universal ....

Mr. L-B: Yes, I will; surely.

HM, Jr: .... and I will arrange for you to familiarize yourself with the Universal. I am not putting too much emphasis on this. This is not something like the French planes where I very definitely did not want a corporation.

Mr. L-B: It is a better way. It might be a better way.

HM, Jr: Yes. That's all. But I am not saying that this is ....

Mr. L-B: .... s'il vous plait ou non.

HM, Jr: Exactly!

Mr. L-B: Because if we thought for some reasons we could not do it ....

HM, Jr: Perhaps. For example, somebody, I don't know whether it was your Government or the British, has a broker in Detroit who has an order out for 500,000 blue blankets at any price.

Mr. L-B: Yes. No, it is not us.

HM, Jr: Look what that does to our markets.

Mr. L-B: Because, Mr. Secretary, your Munitions Board just now has only advisory capacity and not executive capacity. That's what we were wondering. We remember that in the last war, when you joined the war, we went through it.
HM Jr: But the money, the only money we have, for instance, for strategic war materials is only $10,000,000. We hope to get $100,000,000. Capt. Collins is purchasing agent for that, because we are the purchasing agent for everything except the Army and Navy.

Mr. L-B: But we were wondering whether you will eventually create a Board to supervise prices.

HM Jr: I think they will.

Mr. L-B: And then we could go through it, as we went through your Munitions Control War Board when it was created in 1917.

HM Jr: I am throwing it out just as a suggestion, but I would appreciate, as this thing develops, that you would keep me informed.

Mr. L-B: Yes.

HM Jr: Because I don't want to see the French and British coming in here, using an example like blanks, and having out an order -- how many mills get that order? No one would take it and up go the prices of blankets.

Mr. L-B: All competing with each other, as in the last war.

HM Jr: It shouldn't. I will tell Archie. It's purely a suggestion. But there is a commercial mission on the way?

Mr. L-B: Yes, there is one. When I left Paris, a fortnight ago, there was the idea to create a commercial mission which would be headed by the Commercial Counselor.

(At this point Mr. Lochhead and Mr. Cochran came in.)

HM Jr: I want you to give Mr. Lercy-Beaulieu a chance to have all the forms and everything else
that the Universal Corporation has; how the thing is set up, so he can take a look at it. Give him the whole works, corporation papers and everything on how it is done.

Mr. Lochhead: And we can arrange for him to go to New York and see Mr. Ren.

HM, Jr.: Anything he wants, to familiarize himself with it.

Mr. L-B: Thank you, Mr. Secretary.

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RE REPORT OF ADVISORY COMMITTEE
ON SECTION 3 OF NEUTRALITY ACT

Present: Mr. Hanes
         Mr. Burgess
         Mr. Duffield
         Mr. Riesler
         Mr. Viner
         Mr. White
         Mr. Bell
         Mr. Foley
         Mr. Bailie
         Mr. Smith
         Mr. Stewart
         Mr. Cochrane

Hanes: Mr. Secretary, I think everybody here has seen a copy of the memorandum which I addressed to you and which you have not yet seen. I believe everybody here has — no, I didn't give Harry White one. I think everyone else has seen it. It is just a rehash, really, and I think the best way to do it is to start at the beginning, so — it will only take four or five minutes longer this way, but it would be better if we all understand it. I will not read all of it but I will read the main part.

"The President has issued a proclamation under Section 3 of the Joint Resolution of Congress, approved May 1, 1937. After quoting the law, the President stated in his proclamation as follows:

"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." 

"After issuance of this proclamation, the Secretary of the Treasury sent the following letter to the Secretary of State and the Secretary of Commerce:

"The regulation concerning credits to belligerents, signed by the President on September 5, 1939, authorizes the Secretary of the Treasury to administer its provisions and to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out such provisions.

"I am forming an advisory committee to consult with this Department concerning this matter. The Under Secretary of the Treasury, John W. Hanes, will represent the Treasury Department on such committee. I will appreciate it if you will designate an official of the Department of State to serve on such committee and advise me as promptly as possible of such designation."

"In answer to this letter the Secretary of State appointed Messrs. Berle and Feis and the Secretary of Commerce nominated Mr. James W. Young.

"In accordance with the request of the Secretary of the Treasury this committee had a meeting in the office of the Under Secretary of the Treasury on September 11th for a general discussion of policy which should be recommended to the Secretary of the Treasury in administering the provisions of the regulation and promulgation of such rules and regulations not inconsistent with law as may be necessary and proper to carry out such provisions. The committee discussed at length the question of the meaning of the words in the statute of 'persons within the United States,' and also whether they are permitted under the said resolutions to buy and sell obligations of such belligerent governments, issued prior to September 5, 1939, and also those issued after that date.

"The committee recommends to the Secretary of the Treasury that an opinion be requested of the Attorney General as to whether (a) foreign branches..."
of American banks are, 'persons within the United States,' within the meaning of Section 3, paragraph (a) of the Joint Resolution of May 1, 1937, (b) whether they are permitted under the said Resolution to buy and sell obligations of such belligerent governments, ((1) issued prior to September 5, 1939, and (2) issued after such date), as part of the usual business of handling funds deposited in such branches.

"A letter has been drafted for the Secretary of the Treasury, requesting such opinion of the Attorney General. After the discussion was completed, the committee recommended to the Secretary of the Treasury a statement to be given to the Press, which is about as follows:

"A policy of encouraging banking and business houses to continue a normal international short-term credit business within the scope of the Neutrality Act was recommended to Secretary Morgenthau today by an advisory committee which he has formed to assist the Treasury in carrying out section 3 of the Act.

"This section of the Act governs credit transactions between persons in the United States and Governments of belligerent countries or their agents. President Roosevelt on September 6th signed a regulation under the Neutrality Act permitting certain types of short-term credit accommodations and authorizing the Secretary of the Treasury to administer the provisions of the regulation. To assist in the work Secretary Morgenthau designated Under Secretary Hanes to head an advisory committee composed of representatives of the Department of State and the Department of Commerce.

"This committee today recommended to Secretary Morgenthau that the President's regulations of September 6th be administered with the least possible disturbance to ordinary legal transactions customarily employed in normal peacetime business. No general regulations were suggested by the committee at this time, but the committee did recommend that, when creditors seek guidance on particular transactions, they be requested to submit questions to the Treasury through the Federal Reserve Banks."
"The committee suggested that attention be called
to the types of transactions which the Act itself
specifically exempts from any restriction, for
example, the renewal or adjustment of credits,
extisting on September 5, 1939, and the legal
purchase of obligations of belligerents which were
issued prior to September 5, 1939. These exemptions
are in addition to the one which was ordered by
President Roosevelt on September 6th and which
applies to ordinary commercial credits for, or
short-term obligations of, belligerent Governments,
provided these credits or obligations are for the
financing of legal transactions and are of a
character customarily used in normal peacetime
financing."

That is the end of the so-called press release
that we are recommending. The last subject which
this Committee discussed was presented by the
State Department for consideration and will be
discussed at a future meeting. It was the ques-
tion of the cancellation of the standstill agree-
ments by American bankers and the terms and con-
ditions upon which these may be renewed, these
standstill agreements.

Mr. Secretary, this opens the subject for further
consideration and action, it being our opinion
that if we set up the machine to operate through
the Federal Reserve banks, the questions being
referred to those banks, as we make rules or as
the Treasury makes rules, we will send mimeographed
copies to the twelve districts, which would seem
to me to save us an awful lot of detailed work
being done here because as those opinions and
decisions accumulated in the Federal Reserve dis-
tricts they could be handled promptly on the basis
of past decisions and it may not even be necessary
to refer them to this department.

It seems to us to set out at this time and try to
foresee all of the problems that are going to be
presented under this so-called Section 3 procla-
mation would not be advisable and we are not advising
that we set up any definite or specific rules
beyond getting an opinion from the Attorney General
on this matter, which is important only to those
banks that have branches in foreign countries.
That is a matter dealing with the purchase of, not so much in past obligations, but in obligations to be issued by those governments in the future.

H. M. Jr:

Anybody can talk that feels like it. Anybody that wants to ask any questions may do so. The purpose of asking you people together was to give you a chance to familiarize yourselves with this and get your suggestions, if you have any, before I act on it.

Burgess:

I should think the only question, really, Henry, is whether one should draw a regulation which, after all, could not do much more than repeat the language of the Act, or whether one should simply say, "There is the Act, it speaks for itself. If you have questions, why, bring them along for interpretation," and then interpret them as they come along.

H. M. Jr:

Do we commit ourselves on regulations in this release?

Smith:

No.

Hanes:

About all we do say here is that we will answer such questions as we can and it may become necessary if we get an adverse opinion from the Attorney General - I should assume that that ought to be given to the public. I think that is a matter that the banks would certainly not be wishing to violate, and if their decision is adverse, then these banks that are doing business in the foreign government capitals, for instance, France and London, branches of the National City Bank - it is customary for them to buy for their secondary reserves certain obligations of those governments just as they do in this country, buying our Governments, and if those banks are not allowed to buy future war loans, we will say, of the government in which they are located, they might as well close up shop and come home.

White:

John, as I read this, it says that the President authorizes the Secretary of the Treasury to administer the provisions of this regulation. I take it that the responsibility of the administration of this
section rests with the Secretary, is that right? Now, what is he doing to fulfill that responsibility? What avenues, what agencies, are there that will check up to see that there are no violations of this? Where in your program is that envisaged?

Hanes: There is not anything in this program, Harry, which suggests that the Treasury is going to do anything more than act in an advisory capacity. I haven't considered the possibility of releasing this situation, if that is what you mean.

White: Is that involved as a legal matter in the placing of the responsibility of the administration on the Secretary of the Treasury? Does that imply that he presumably is to take care to see that there are no violations?

Hanes: That is the question I think the lawyers could better answer than I. Frankly, I hadn't considered it in that light.

H.M.Jr: It is a good question.

Foley: Well, the Act carries criminal penalties and they are very severe and I should imagine that violations that are brought to your attention should be made available to the Department of Justice through this department for such action as they may want to take.

Viner: Brought to our attention by whom?

Foley: I should imagine that if we have any information we would make it available to the Department of Justice. I don't think we are under a duty to....

White: Who is going to make it available to the Treasury? How is the Treasury going to know if there is a violation?

Burgess: The Bank Examiner would. In the course of natural business he would find in the course of the bank's operation any violation of this as well as any other law.

H.M.Jr: That would be only the national banking people.
Burgess: Federal Reserve Examiners, too, could call attention to anything they found. Automatically the system is set up to deal with banks.

White: All the banks that have foreign branches are either members of the Federal Reserve System or Federal banks. In other words, the responsibility of the Secretary of the Treasury is to fulfill, when he is ready to receive information with respect to any violations.

Foley: I don't think that is quite right, Harry.

H.M.Jr: May I just make a suggestion which might clear this up a little bit, or it may not. Harry said we will use the Federal Reserve Banks, wouldn't it help clear it up a little bit if it said we will use the Federal Reserve Banks in their capacity as fiscal agents of the United States Treasury?

Foley: I think that is advisable. I think we also ought to talk to the Federal Reserve Banks.

H.M.Jr: So that when you use "in their capacity of fiscal agents of the United States Government." It is not the System, I mean. We are not using the Federal Reserve....

Burgess: You are using the Banks, not the Board.

H.M.Jr: That is the point, Randolph got it.

Did you get it?

Hanes: Yes.

H.M.Jr: Did you hear what he said?

Hanes: Yes.

H.M.Jr: I was just thinking of the wear and tear - that we are using the Federal Reserve Banks as fiscal agents of the United States Treasury.

Vineri: Does that mean we will draft instructions to the Federal Reserve Banks as to what to look for?
Foley: I should think, Jake, we would want to talk to the Federal Reserve Banks first to see whether or not they are willing to take the bonds and tell them a little bit about what is expected of them before we just make an announcement through the press.

Banes: We haven't considered doing that without discussing it with them. This is merely tentative here, and it is open for - if anybody doesn't like this thing, we ought to change it, that is all. It is just brought in here for something to shoot at.

Burgess: It might be a very good plan to get Logan from the New York Bank to come up here tomorrow. The New York Bank is the one which has done all these fiscal agency things in the first instance, and Logan is their Counsel. I happened to sit beside him at lunch yesterday and talked about this a little and he said he assumed that the Reserve Banks would do it if they knew about it, but he would be very helpful on the question of whether regulations would be necessary and how to do it.

H.M.Jr: (On phone) Hello. (Telephone conversation with President Roosevelt unrecorded).

Bailie: Mr. Secretary, I think you have to - we will have to show some sort of record here of having told the Federal Reserve Banks what you want them to do, because after all, in an act of criminal penalties, it is up to you to administer it, it can't be just sort of self service. Don't you think that is right, John?

Banes: Sure.

I would like to know if there is any difference of opinion in the method of approach, whether or not there is any opinion here that thinks that we ought to draft rules and regulations on this thing or try to be specific on it until we know a little bit more about the problems.

White: I don't see how you can avoid drafting some regulations, but they can be as general as you like with subsequent specifications, but it appears to me it is acceptance of a new responsibility which ought to take some definite form. How much
you would want to specify is another matter. However, that is fully a legal question.

Burgess: It says, "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."

White: You don't have to, but it seems as though there should be some indication that he has assumed responsibility and has taken some steps toward fulfilling it.

Viner: Another phase is that the public has a right to be told just what it can and cannot do, that it can't be left altogether in a haze, and you can't keep on answering individual questions. If you start issuing interpretations, I should say at that stage they ought to be concerted into regulations.

Hanes: We assumed that the proclamation itself covered, to the bankers' minds, the fellow that is dealing in this kind of thing, specifically enough. For instance, it says, "Ordinary commercial credits and short-time obligations shall be excepted." They are excepted from the Neutrality Act. Those which are in aid of legal transactions. Well, illegal transactions, of course, is a matter that is pretty well defined under the Neutrality Act. Another character customarily used in normal peacetime transactions. Now, the penalty for violating that thing is $50,000 fine and five years imprisonment, one or both.

Foley: $10,000.

Hanes: I thought it was $50,000.

Foley: $10,000 and five years in prison, John. Those are severe for this kind of an Act.

Hanes: If anybody has any questions in their mind as to what is an ordinary peacetime commercial transaction or what is a short-time obligation in aid of legal transactions, it would seem to me that that language is specific enough to cover the ordinary rules and regulations that we would promulgate unless we went on to say the following shall be considered.
ordinary peacetime transactions, the following are not, or something like that.

Fallie: You can't cover them that way.

Hanes: We would be in a worse fix if we specified those and left out a couple. I don't think we would be protecting our people adequately under the law.

Fallie: The commercial community will get a great deal more understanding out of published decisions by the General Counsel as they come out than they would by any attempt to think out in advance.

Hanes: That is what my suggestion was based on, that we keep the Federal Reserve Banks posted as rulings come from day to day, send those mimeographed rulings right to the districts so they would have a file and could keep up to date on what was and was not allowed under this, in accordance with the Treasury regulations or rules.

Viner: Couldn't they go in the official register too? What is it called?

Bernstein: Federal Register.

Foley: The rulings? They could be inserted, Jake, if we wanted to.

Fallie: Don't you think you would have to go this far, that each one of the twelve Federal Reserve Banks acting as your fiscal agents would have to see to it that they send in a written notice to every bank covered by these regulations, telling them about them, calling attention to them, and saying that they were ready to advise with them as problems came up so that there is no doubt that you have fairly given notice of the fact that you have taken jurisdiction?

Hanes: There may be somebody here that thinks that is not a good way to go. If there is - as a matter of fact, I am not the thinker-up of that idea. I think I will have to give Gene Duffield credit for thinking that idea up. It appealed to me as being a sound one. Maybe some better ideas can be approached to this thing than that.
Smith: Randolph, this will affect comparatively few.

Burgess: Yes, mostly New York banks. I just told John to check with the City Bank Counsel to see if this covers it, and I think you will get a pretty good check on it.

Haines: How will that be, taking this suggestion that this thing go out by airmail tonight and I write a letter to the President of each Federal Reserve Bank and say that we are thinking of doing this. Everyone could be reached, you see, by morning, and that we would like to have any comments back and that we are going to ask them to do this. Before we give out a press release we would like to have the answer back by airmail. If this went out by 5:00 o'clock this afternoon it would reach them by airmail by tomorrow morning, and ask them to just send it back to us within the same day. What is today? Tuesday? Thursday morning you would have the answers from every Federal Reserve Bank and if they have any questions to ask they should call who, you? (To Mr. Haines)

Haines: I will be glad to answer them.

H.M.Jr: Do you have the letters prepared?

Haines: Yes, sir.

H.M.Jr: If there are any particular questions they want to ask - just so that there won't be any, I would send a copy of the letter over to the Board.

Haley: Even enclose a copy of the Neutrality Act and the proclamation that the President signed, and the Committee has been set up.

H.M.Jr: And then a copy to the Chairman of the Board for his information.

Haines: That would mean similar to what we have here. A copy of this memorandum to you would be about what we would say to them, because that has got about the whole business in it.

Ball: Why don't you send a copy of this last memorandum except the last paragraph? There is no harm in the memorandum.
Burgess: I think you could add one phrase, John. I think you could put in, where you say the general regulations were suggested, you could put in "In view of the explicit character of the Act itself, no regulations were considered necessary."

Foley: I think that you are being facetious.

Burgess: Don't you think it defines things? It isn't general; after all, it does list things.

Foley: It is pretty vague, I think, and therefore I don't think it is susceptible of hard and fast regulations. I think if the Act was clearer and defined exactly what they had in mind, we would be able to administer it with a great deal more facility, but because it is so vague and because it parallels the Johnson Act in its language so closely that we have to be terribly careful about any general things we say now, and I think it is better to feel our way and get specific instances where we know the facts before we make any commitments.

Burgess: Well, in view of that feeling, I will withdraw that.

H.M.Jr: If this thing can go out early airmail with a special delivery stamp, that would go in the same day, do you see?

Hanes: You want to know whether or not they have any suggestions to offer and whether they will agree to act?

H.M.Jr: And if they have any questions, to ask them to call you on the telephone.

Hanes: Will you help me with this?

Foley: Sure. I would suggest that we send - not the memorandum, but....

H.M.Jr: I don't care.


H.M.Jr: Fix it up.
Foley: Yes.

H.M.Jr: Is that all right?

Baines: Yes.

H.M.Jr: Now, what the President called me on - the reason I am telling you this is, he said he gave me a deadline of noon tomorrow to fix up something on this stabilization for twenty-one Latin American countries, so that is the reason I am cutting this a little bit short. He says that is a deadline, go the whole hog and no quibbling.

Baille: The advice we are prepared to give you will not fit that formula, but we will have to discuss that.

H.M.Jr: Well, just so it is on time.

Baille: When do you want to see us?

H.M.Jr: I have got this Federal thing and after I am through with that I will be no good, but I will be moderately good tonight. The only thing was, I thought if we could do it tonight and then I would call up Mr. Welles and ask if he would come over here at 10:00 o'clock tomorrow morning.

Baille: What time do you want us tonight?

H.M.Jr: 8:30?

Baille: That is all right.

H.M.Jr: Should I have Feis sit in with us tonight?

Viner: I would say by all means. We are very, very vague as to what this is all about and we are guessing.

Baille: I would be quite worried about having him sit in until you made up your mind about what you wanted to do about the answer to the Secretary of State's letter.

H.M.Jr: The only thing, it would save time. Feis told me in the few minutes I had with him that he convinced Mr. Welles that the stabilization fund couldn't be used for this purpose.
Bailie: That is right.

H.M. Jr: So, I would just as lief have Feis sit on the inside. I don't care.

Bailie: Would it be possible for Mr. Feis to come in at say, 9:00, or a quarter past, so we would have a little chance to discuss beforehand what our attitude is going to be? We took our time in discussing this thing, largely what our relation with the State Department ought to be.

Burgess: I suggest that maybe Dan and I go down to the Board.

H.M. Jr: All right.

Who is working on Pan-America?

Bailie: I am, and Cotton, and the three "E's."

H.M. Jr: Harry White is in on this.

Viner: And Bernstein.

White: And Cochrane.

Bailie: I will see that Cotton gets everything. I will see that Cotton gets every one at your house at 8:30.

H.M. Jr: I don't know what the whole hog means.

Bailie: Two hundred million dollars.

Hanes: I don't think he gave you much choice in the matter. Decisions won't be hard to make.

H.M. Jr: I wish....

Bailie: You don't need us any more, do you?

H.M. Jr: Well, I want White to look up my testimony before the Senate where, as I remember, if my memory serves me right, I said I would not use the stabilization fund for loan purposes to any foreign government without going to Congress for specific....

Viner: You said to any belligerent.
White: At one point you said to any government involved in war, but there are other parts we will have to examine before we can definitely say that you didn't say that.

H.M. Jr: I think I said that I wouldn't approve any loan to any foreign government without getting specific authority from Congress.

Hailie: Welles told us the other morning that he believed, in view of what you had said - and this wasn't on our saying so, he volunteered this - it would be necessary to go to Congress. Welles volunteered that comment himself.

H.M. Jr: And particularly in view of the fact that we asked for 100 million dollars for the Export-Import Bank of North and South America and we got turned down. And again in these few minutes I had with Feis, he said I told him that you want - wouldn't want a broad-side agreement with twenty-one countries. He said that you would like to do each country individually.

White: I suspect that there may be some merit, in view of the way in which this is being handled, in going along in anticipation that the major difficulties which you foresee will crop up.

H.M. Jr: What do you mean?

White: I mean they will crop up on the occasion and that is when it will become apparent that nothing can be done along those lines, rather than blocking it now. I mean if you go ahead with it tentatively and cooperate with the....

H.M. Jr: You mean let Welles make a commitment for 100 million dollars?

White: Let him make any commitment he wants, if he wants to make a commitment.

Hailie: I violently dissent with that view.

White: If the thing is being written for us, the other alternative is to go along - however, we will trust that. The situation is changed, it appears to me, by this last communication.
H.M. Jr.: Well, I doubt if I am trustee for this fund and I have made certain statements to Congress and I expect to live up to them. I am not going to break my word to Congress.

Ballie: Mr. Welles has told us he expects you to. I think our trouble comes in quite another alley. I think we could get away from the stabilization fund. It is a question of whether you want to take another aspect of the situation.

H.M. Jr.: I still think you people could come at 8:30 tonight and I could invite Feis for 9:00. He is always late anyway. Don't you think he ought to be there?

Ballie: What will Mr. Welles think?

Winer: Welles ought to know or the State Department ought to know that you invited him.

H.M. Jr.: I am making the appointment through Welles. I am asking Welles to send Feis tonight.

White: We will have all the statements typed up that you made reference to this in your public statement.

H.M. Jr.: I have got to be consistent. I can't make a loan on the stabilization fund.

Ballie: It is more than the exact words that you said, it is the atmosphere that you created which the Undersecretary thinks, and I think, too, is a very strong feeling that you regarded the type of transactions that you had been doing as one that you planned to continue to do and that if you were going to make any violent changes of any sort using the fund, you would come back to them. It was on that basis they extended the period during which you had this great power. That is the impression that was given. I don't think it is so much the identical words you said, because Mr. Welles, having looked it over, came out with a statement he felt quite sure the Secretary would want Congress to authorize it. I don't think we have to fight that.

H.M. Jr.: Would or would not?
Bailie: Oh no, Welles volunteered the statement that he assumed that this would have to be done by new Congressional authority. Now, why we should go behind that I fail to see unless you should want to use the fund for some of these purposes.

White: I think there are a lot of developments which you should hesitate to commit yourself, whether you can or cannot. The best position to take is that it depends entirely on the terms and conditions and circumstances. There are certain conditions and terms under which that fund can legitimately be used, and I think not contrary to that statement which you made. There are other conditions in which that is not true.

H.M.Jr: Harry, you get the statement that I made before Congress when I testified. I certainly gave the Congress the impression I was not going to use this to make any loans to any foreign governments, and I am not going to do it for anybody. Somebody else can do it, but I won't. I'm not going to do it. I am the person that got that fund through. I am the trustee. I am not going to break my trust. I know what I went through to get that thing. Is Welles asking you....

Bailie: I don't think he is for a second. He is asking you to agree to his making at Panama certain statements and asking certain resolutions to be passed, and we will bring those with us tonight.

H.M.Jr: Can't he make some glittering generalities?

Bailie: That is what we are suggesting.

White: It is not going to meet the President's notion of what is to be done.

H.M.Jr: Harry, this is the way I want it done. I don't need anybody to advise me how to administer the stabilization fund and what to do with it. I got that through and I am not going to make any loans to any foreign powers as long as I am here, without getting Congressional sanction. I don't need any advice on that. I know what I went through and you look up my testimony and you will see that that is there.
Hallie: Mr. Secretary, you moved back from that position, which I think can't be controverted in any way, to the place where you say, "Well, is it a loan if you buy the paper currency of the government that hasn't any gold back"? and our answer is "Yes, in general, it is a loan." That is what it would amount to if we can't sell it again. Then you come on back with a variety of steps, for instance, with the Argentine Government, where it is pretty near possible with their financial strength, but you have the Tripartite Agreement. They have gold. They keep their engagement. They have a central bank. The whole machine exists there.

H.M.Jr.: What is the State Department going to do about this debt question they keep all the time?

Hallie: Mr. Welles stated to us that he did not have the slightest intention of having that messed up with this 200 million dollars. He didn't want anything commercial or about debts mixed up with it. He wanted just purchase exchange and - I can't get out of my mind the exact phrase he used, but the idea was to be as far away from your letter of August 1st as it was possible to be in his idea of the way this was to be handled. That is the thing we have been wrestling with in our meeting, to see how we could.

H.M.Jr.: Of course, you could do two things separately.

Hallie: That is right.

H.M.Jr.: You could give him something to take to Panama.

Hallie: That is what we are going.

H.M.Jr.: Then this letter to Mr. Bull about the Committee could be done afterwards, which would make it simpler.

White: I still think the unassailability of your position lies in requiring and demanding those terms and conditions under which you will utilize the stabilization fund that meets with what you regard as sufficient safety to satisfy your ideas of what your trusteeship involves. In other words, it is the terms and conditions of the use and not a preliminary statement to the effect that you are not going to use this
fund at all for any stabilization purposes. It is only when they come forth for a specific purpose that does not meet the terms, which you are at liberty to set at that time, that I think you can well say that this loan under these conditions involves a risk which I am not going to assume, not willing to assume.

Mellie: Harry, I think you are talking a little bit beside the point. I happen to have been at this meeting with Mr. Welles and Mr. Welles's statement was that he thought Congress ought to take 100 million out of the stabilization fund and take 100 million of the Export-Import money that they didn't give. That was the added together you get 200 million and you have got a fine new fund, and that fund was to be used for these purposes, which I find so hard to understand. I mean they are such general phrases. There was no suggestion that you should use the present stabilization fund, because Mr. Welles said that he assumed in view of your testimony that it would not be possible to use it.

M.M.Jr: That is what Peis said he told him.

White: What about the President?

M.M.Jr: Mr. Welles didn't quote the President to Mr. Burgess and me as having taken any position about this stabilization fund.

M.M.Jr: Peis knows what is in his mind because he is the fellow who took this up, so we might as well have him here. Maybe we are seeing bugaboos, but just keep it in mind before the next stabilization for 100 million dollars and the Export-Import for 100 they didn't get.... Let's take that 100 million away from the Federal Reserve and use it. They have got 120-odd million dollars. Mr. Eccles is so anxious that I use all my free gold, let's take his hundred away and use it for South America. How much has he got up there, 120?

White: One hundred ten.

M.M.Jr: Well, we won't be small. We will leave him ten.
Bailie: I suggest a collection among the departments.

H.M.Jr: Both the President and I are committed to use the stabilization fund to eventually retire the public debt. You can use this 100 million that is lying right over at Federal Reserve.

Bailie: I remember six years ago his stating he wanted to keep that "kitty" entirely intact.

H.M.Jr: He may be all right.

Bailie: I really don't think it is as serious a situation as it might seem.

H.M.Jr: Let's get together at 8:30. I will only interrupt you when the Federal comes over here.

Hanes: Before you go, is everybody satisfied with this thing now?

H.M.Jr: You have got their approval.
GROUP MEETING

Present: Mr. Hanes  
         Mr. Bell  
         Mr. Bailie  
         Mr. Burgess  
         Mr. Smith

Smith: We have been discussing the American Bankers' convention. Mr. Burgess is unable to go. With your approval I will go to the convention.

Burgess: I think he ought to go and carry the news.

Smith: It means being away two weeks, starting the end of this week. It is in Seattle.

H.M.Jr: Are you kidding?

Smith: No, that is our... John, I just told the Secretary that we had been talking about covering the American Bankers' Association convention. Randolph can't go.

Burgess: No, I am not going, that is obvious.

Bailie: The Treasury business is more important now.

Burgess: This is no time for me to leave.

Smith: That seems....

H.M.Jr: Be gone for two weeks?

Smith: Yes.

Hanes: Does the Bankers' convention take two weeks?

Smith: It is in Seattle, Washington, you know.

Hanes: Do you fly?

Smith: I can if necessary, yes.

H.M.Jr: I tell you, right now I understand that Preston Delano is out there. The chances are he is going to get a telephone message from me on the 15th to come back.
Durgess: He is not there yet.

Smith: He is in Canada.

H.M.Jr: But that is where he is headed.

Smith: It doesn't make any difference to me.

H.M.Jr: You can start there, but I am going to tell you right now that if that fellow pays that dividend I am going to send for you and Preston.

Smith: That is all right.

H.M.Jr: If you have that in your mind, you can do your own betting as to whether you think they will or they won't.

Smith: Well, I think that today is the day.

H.M.Jr: It is the 15th, isn't it?

Smith: This is the second Tuesday. I thought that this was....

Beg. This is the second Tuesday. Do they have a Board meeting today and pay it on the 15th?

Smith: I think it is declared today if they declare it.

Hanes: Let me make an observation. If it hinges on whether or not they pay the dividends, then you better not start, because they are surely going to pay the dividends.

Smith: No, personally, I would rather not go.

H.M.Jr: In the next two weeks, if these fellows pay the dividend, then I am going to ask a man from Boston to come on down and send for Preston Delano and then decide what we will do about it. After we have decided that, you can go and explain that to Seattle.

Smith: I know what....

Burgess: As a matter of fact, you don't have to leave until the 21st.
H.M.Jr: You could explain that.

Bailie: The reason for being at the convention, I think, is an important one, if there are no more important things, and that is that there is a widespread misunderstanding with the Government bond market, the responsibility of the Treasury for it, and the Treasury is being criticized for it. Now, I think it is a parcel of goodwill at the convention and it could do us substantial good and could help the background feeling about our bonds, unless there is something more important for him to do.

Smith: There is a very definite course to pursue in the other matter if they declare the dividend.

H.M.Jr: Well....

Hanes: We haven't got much alternative. There isn't much to decide.

Smith: The first thing you have got to do in the other is to go in and see what they have done. That will take a week or two. The Chief Examiner should go in there as soon as they declare the dividend and see what they have done toward meeting the requirements and report to the Comptroller. Then is the time to make a decision.

H.M.Jr: I see.

Smith: We have been discussing that and you couldn't take a chance on not checking what they have done. They might have done something that you didn't know about. We thought they might sell their bonds and make this charge-off. Of course, they can't do that now.

H.M.Jr: If today is the day - let's put you on the same basis the Treasury is on, 24 hours notice, how is that, as far as you're going to Seattle?

Smith: I am on that basis.

H.M.Jr: Then let's let it ride.

Smith: I have made my plans and I am just holding my reservation until the last minute.
Hanes: I wish Tom and Randy both could go.
Bailie: Believe me, not unless I go too.
H.M.Jr: Let's all go.
Smith: You understand then, there isn't anything that....
H.M.Jr: I am living from hour to hour. Let's just see what happens.
Smith: That is all right.
H.M.Jr: O. K.?
Smith: Yes.

Bailie: Henry, I reported to Burgess this morning and then Tom Smith, the competition we had last night on
the Government bond market, and I think, Randolph,
you can go ahead and express the views.

Burgess: I was up there yesterday and I had a pretty fair
exploration job to get the feel of things, Saturday
too. Now, it is presently clear to me that we are
dealing with the waves at sea.

H.M.Jr: Don't say that, I have just come off it.
Burgess: That is just what I mean.
H.M.Jr: That is a pretty big ocean.
Burgess: This speculative movement on the Exchange is supported
by much better business news than anybody has a right
to expect. Steel is going to be up 70 percent of
operations and their orders are coming in. They are
overdoing it also. On the face of that, it is just
an impossibility to have any other kind of bond
market but what we have had. In other words, you
have got a tide you are dealing with. Now, the only
sensible thing when you are dealing with a tide is
to go with it. You can't attempt to embattle it.
You want to find resistance points. I had hoped
that a point where the tide would begin to let up
a little bit and where you can make a stand and
build a few bulwarks, I had hoped that it was
102 or 101 3/4 for these '60s and '65s.
I was just as wrong as could be. It wasn’t the place because this speculative thing kept on moving and the bonds kept on moving the other way. It was just the psychology of it. They are over-doing it. A little later it is going to readjust itself, I am just as sure as I can be. Now these fellows aren’t fading back fast enough. They are in their alabaster tower and they are unrealistic. Now, I think the next point where there is a chance of getting some order in this thing, getting some other buyers in, is at par. People may begin to buy at par. That means only a point and a quarter more for the longest bonds. Earl thinks that three percent basis....

Bailie: I just say that to be offensive. In other words, I say nobody can tell the point at which psychology will change. It will change two or three days after the average buyer believes that the market is natural and Bethlehem steel stock is going up ten points a day. Do you agree with that, John?

Hanes: Sure.

Bailie: The combination of those two things will suddenly turn people around. They won’t do it as long as they think we are in the market and they see Bethlehem steel going up ten points a day.

Burgess: I think that is not keeping an orderly market, it is pegging the market. I think if we have a program where they spend 25 million dollars a day, O. K.

E.M.Jr: What did we get yesterday?

Bell: We got six million two hundred twenty-five thousand bonds, and two million of Home Owners Loan.

Burgess: If you agree with us, we will go ahead and try to negotiate with them and see if we can get any satisfaction.

E.M.Jr: That is pretty important.

Bell: John, do you want to express yourself?

Hanes: I agree so thoroughly with everything that has been said - you know, I have disagreed so absolutely with
everything they have done up to date. I have agreed with what we did when Marriner Eccles came back, and I don't believe there has been anything done since. You take anybody that is running a fund that had the right to buy equities, as they did at that time - they were seeking security and not profit, but just looking for security. They had their money invested in high-grade bonds or Governments. The first impulse is so natural to run and throw those things over. It didn't make any difference to them about price, because they would go into equities. The market is equity-minus. This country has gone from a buyer's market to the seller's market. I can give you a dozen instances - my brother-in-law called me on the phone a minute ago and said that he had just been asked to take a 500 thousand blanket order - for blankets, 500 thousand. And he says, "I am just full." In the last four days. He says, "I can't take any more business."

Bailie: That is the bottleneck.

Burgess: You have had a business situation which for six years, seven years, eight years, almost ten years, has been under wraps. It was held back.

E.M. Jr: I don't understand you.

Burgess: Under wraps. It has been held down, hobbled, and it is suddenly released. People buy things....

Hanes: People are not bond-minded. To cope with Government bonds, they have got to seek their own level, and I think it is just like trying to dam up Niagara Falls. If it wants to go down, it is going down, and I say let it go down with a mild cushioning to keep the air pockets opened up, keep the market from falling away to nothing. In the absence of that kind of a market, I would stay out and buy six to eight or ten million dollars. You can do a lot more with that and let the public have the knowledge that it is a free and open market than you can with fifty.

Burgess: I was saying twenty at the outside.
Emilie: In saying twenty, I think Randolph has in mind the tremendous distance we are going to have to pull with the Federal Reserve to get the twenty. It seems to me if you could make a short-term engagement for the next three days, we won’t spend more than twenty million a day.

H.M.Jr: If you don’t mind, I think it is a mistake to place a limit, I mean even on the money. You might say, "Let this thing go," and they might do it for five million and they might let it go two points. I mean, if I was doing this thing the way we always used to do it, that I worked directly with you (Mr. Burgess)....

Burgess: We always got along somehow.

H.M.Jr: I have done it eleven months out of twelve since I have been here. When the President made the Green Bay speech I think we bought 40 million dollars that day. Another day something happened. You always had plenty of leeway so that you could take care of it. We might strike an air pocket which might cause 15 million one minute and the next minute he could call me up and say, "I can sell a few, Henry, so what do you think?" And I would say, "Go ahead and sell," in the same day.

Emilie: The Federal is not sales-minded.

H.M.Jr: You turned right around after that pocket and sold a few.

Burgess: Sure.

H.M.Jr: Well, the boys in the Federal did a beautiful job at the Munich Crisis. That was after I had gone. They did a nice job. They bought them on the way down and they sold them up.

Bell: But they were under the market all the time.

Burgess: Yes. They started out this operation with a complete erroneous idea. They are out of contact.

Smith: And their action has accelerated this fifty per- cent.
H.M.Jr: What do you think, Tom?

Smith: I think that unless you want the – I have been doing a lot of thinking about it in the last week – unless you want to buy all long-term bonds....

H.M.Jr: Which I don't.

Smith: ....you must let the market seek its level and there is an imaginary point at which the public will take the market out of your hands, and you have got to ease it down to that point, but all I want to say is, don't be disappointed if par doesn't stop it.

Sailie: That is why I said three percent.

Smith: It is anybody's guess. Ease it down and when sometime at a certain point the public will - private industry will take your market, then it is going to go up. I don't think par will do it.

H.M.Jr: I don't think there is any disagreement. As I get it, the thing is to ease this thing off and try to find a bond....

Smith: More rapidly than they have been doing.

Sailie: Much more, because the picture now is, when Federal yesterday asked people not to trade after 4:00 o'clock, it was a terrible mistake and it gives the impression of fear on our part of a situation in which we are not afraid.

H.M.Jr: That isn't "business as usual."

Sailie: Clearly not, and Randolph is right there within a block of them, talks to them several times, and they didn't consult him about it.

Burgess: I was in there until half past two and they didn't consult me about it.

H.M.Jr: Who is going to be the Ambassador from here over there?
Bell: Didn't we agree we ought to talk to George Harris?

Burgess: They are in a meeting now. I am not sure, but if you didn't mind doing it, Henry, your calling Ransom and telling him, I think it would be more forceful than if we did. Don't you think so?

Bailie: I think so. I have a feeling that I would like to know that we have George with us so that we won't get in between.

H.M. Jr: Where is George?

Burgess: He is over there, I think. They are having a meeting now.

Bailie: George said last night something which rather frightened me. He said he would like at the end of the day to pull out and make an announcement that the Government was going to let the bond market go where it wanted. I have got hair on my chest, but not that much. I want to be quiet about it.

H.M. Jr: Suppose I do this, suppose I call them up and say that we are not satisfied and that I think it would be wise if they would come over here again and have a powwow. This Panama meeting could be postponed.

Bailie: That would be an advantage to the Panama meeting also.

H.M. Jr: On the theory that we would do the most important first, I would say that this is the most important.

Burgess: I would be glad to undertake it, but I don't think it is quite strong enough, my just going over there.

H.M. Jr: He was the man who called up and asked if it was all right for him to leave town. Some of these boys said if I didn't tell them to go they would just slip out.

Bailie: There wouldn't be any Secretary of the Treasury any more.

H.M. Jr: These fellows said if I told them to stay they would never talk to me again.
Burgess: I have talked to Ronald this morning. There is one other fact you might be interested in. They are within 100 million of their authority. They have got to have a meeting of their full committee. In the light of that, they want to do as Ronald said this morning, continue as yesterday, spending a lot of money at this level, which is obviously an absurd level in view of the attempt....

Bailie: In view of what the market is saying.

Burgess: I can't understand it.

Bailie: Marriner told us that when he got to 500 million all he had to do was to call in the fellows on the telephone and get another half billion. Now, that kind of knowledge seeps out. I don't care....

Burgess: It comes out in statements too.

Smith: It is general information that all you have got to do is sell your bonds and a little later on you can buy them back cheap.

Bailie: That is exactly my point. We are just being suckers.

Smith: The way they handled the market the week before last - then Henry told me this morning, for instance, he said, "I want to find out what this market is," and offered a million bonds. After fooling around a couple of hours the Federal Reserve said if the broker would give up the name of the seller they might handle a hundred thousand.

Bailie: We felt very badly about that, that business about asking names. We thought it was a sign of weakness.

Hanes: Has the copper bond market shown any signs of finding the bottom?

Burgess: Yes.

Hanes: Has it recovered any from the bottom?

Smith: Sure.

Bailie: It can't stand up against a day like yesterday.
Hanes: When you have got feeling good in the equity market, it doesn't destroy anybody's confidence to see bonds go down. Anybody that understands knows why bonds go down when equities go up.

Mailie: We had a 1929 in the bond market just during June, July and August, and we are now having the September and October of it.

Smith: Everybody has been looking for that. They say, "Now, here it is," and they are trying to run and then buy them back. The minute they think that it has hit a level....

Burgess: I talked to the New York Bank this morning and they are prepared to do just as we suggest, that is, fade back to par on these things and only spending a little money, so if when they get to par they want to spend a little more before fading again, that seems to be sensible.

Mailie: I have the feeling to set any price at which you are going to stand is wrong psychologically. I think we kid ourselves when we do that. I wouldn't want to make a stand any place. I wanted to just keep an orderly - no stand.

Burgess: You are between the devil and the deep blue sea, Earl. You have to buy some way. Now, if you just buy right on down in a steady line at the same amount....

Hadley: The Federal Reserve had gotten about seven million by 10:30 and their bids are the only bids that are in the market. There were a few sales on the Board slightly under them, but most of the sales now are Federal purchased and they are trying to divert the volume from the Exchange to the Board, doing it over the counter, and they have got their over-the-counter bids at 2/32nds higher than their Exchange bids.

Burgess: What are they bidding for the longest bonds?

Hadley: Their Exchange bids are 101.6 and over-the-counter bids are 101.8.

Burgess: They haven't faded at all.
Bell: As a matter of fact, they raised that last night. Those bids were down to 101.4 and they raised to 101.6 and then to 101.8.

Hadley: The free market yesterday at the close was about 4/32nds below the general bids. They got the dealer to bring those bids up. If they let it down it would drop down about 4/32nds.

Bailie: You say they get the dealers and they bring their bids up; that means that everybody knows that there is nothing in it.

H.M. Jr: (On phone) Hello, Ronald. (Telephone conversation with Mr. Ronald Ransom follows:)
HMJr: Hello.
Operator: Governor Ransom. Go ahead.
Ronald Ransom: Good morning.
HMJr: Hello, Ronald.
R: I was right in the middle of reporting a conversation with Marriner and Burgess to the committee so I -- this is the first time I could get to the phone.
HMJr: Well, I appreciate that. Ronald, we're sitting here talking things over. I don't know -- we're disturbed about the bond market.
R: Yes.
HMJr: And I'd appreciate it if my crowd could get together with your crowd......
R: Yes.
HMJr: ........as soon as possible and talk it over.
R: All right, sir.
HMJr: Do you think that could be arranged?
R: I think it can. Let -- let me -- let me -- in the adjoining room to the committee that's meeting now in the other room, and I'll ask them if that can be done.
HMJr: And will you......
R: Yes, and call you back.
HMJr: If you'll call me back......
R: Right away.
HMJr: ......I'd appreciate it.
Bailie: I think you ought to tell him, Randy, about that communication order that was issued against you.

Burgess: Oh, I have been going down there in the morning when they were determining the day's program and I have been sitting in with them. Marriner called me Saturday and said that they had been having a little discussion because technically those meetings were meetings of their Executive Committee and the rule was that no outsider could be present at a meeting of their Executive Committee.

H.M.Jr: Well, if it will make you feel any better, in November, 1933, I was Acting Secretary of the Treasury, and the Secretary of the Treasury was Chairman of the Federal Reserve Board and he questioned me about the meeting and I was told that I couldn't come to the meeting.

Burgess: It was a good alibi. I said I didn't care.

Bailie: But Ransom thinks that you asked. The reason we are asking this way is because of that.

Burgess: I told him...

H.M.Jr: As a result, I never went to a meeting when I was Secretary. I think I went to one.

Burgess: I told him that was all right as long as the Treasury had a chance to register its views before the decisions were made instead of after.

H.M.Jr: Some mornings like this I feel like saying, "Thank you for putting me off the Committee."

Smith: They practically said they didn't want you at the meeting?

H.M.Jr: They did. It wasn't the....

Bell: That has always been a fight in the Treasury, about the Undersecretary attending the meeting when he is Acting Secretary. Gilbert had the second fight. They finally let him come, I think.

H.M.Jr: It wasn't a question of saying yes or no, they just said no.
There is just this, the market is like the sea, and when you try to revise it, it just overwhelms you. You have to let it through and let it level down and take care of itself, and that is what you have got to do in this case.

It is like some wild animals. If they see you are afraid of them, they come at you, and if you are not, they don't.

John, don't underestimate the element of the banker who has these bonds with his Board behind him, telling him, "I told you you ought to have gotten out of them a long time ago." Now he is trying to run to cover. He thinks they are going down to ninety. They still remember the Mellon days when those three went down in the seventies.

I would think the Chairman of the Board of Directors....

The Mellons went down to three cents and there was twenty-five cent sugar.

What did you say?

I think some of these Chairmen on the Board of Directors would have a hard time justifying their position and agreeing not to sell Government bonds on this market.

When the Government is saying, "Boys, come and sell us 65 million a day."

They do.

Of course.

The fellow that didn't meet this situation a long time ago is in trouble.

I have been getting along all right with these fellows. There has been no feeling at all.

He was just politely thrown out.

I didn't object to that particularly. That is just nonsense, that is all.
H. M. Jr: You think as a result I will ask them to come over here, is that what you think they will think?

Bailie: I am sure that is what he thinks.

Would you like me to ask Mrs. Klotz to postpone the 10:30 meeting?

H. M. Jr: Let's wait a second.

(Unrecorded telephone conversation with Mr. Ronald Ransom)

Smith: It would be funny if it wasn't so damn serious.

Burgess: We have been going to them....

H. M. Jr: I would go over there but I just don't think I should.

Bailie: I wouldn't go over there at all.

H. M. Jr: Then, if you would tell the Panama.... And then why don't you all go back to your offices and when these boys come I will let you know.

Bailie: And we will just issue another call for the Panama.
MEMORANDUM FOR THE SECRETARY’S FILES:

September 12, 1939.

Governor Eccles called me on Saturday, September 9, and stated that the Executive Committee had been reviewing the Treasury’s participation in the System’s purchases of Government securities during the past ten days and had noticed that the Treasury had taken blocks of long bonds which had been sold across the board of the Stock Exchange, the amount of which did not represent any prearranged percentage of the total or of any particular issue. He said that the Committee felt that as long as the Treasury was participating in the program, it would be better to have an understanding as to just what option the Treasury would have. He said that if there was no objection on the part of the Treasury he would like to see it have the option at the close of business each day of taking up to 50 per cent of each of the issues of the four longest bonds.

I told him that the Treasury had no objection to this suggestion but I thought for the record he ought to know why we had taken blocks of bonds purchased across the Stock Exchange. The reason for our action was to facilitate the transactions in the New York Federal Reserve Bank because by taking all of a particular issue from the stock exchange, they could lay that aside as Treasury business and handle it as such without undertaking to divide up the various purchases across the exchange and across the board between the Treasury and the System. We are now operating on the basis of the suggestion made by the Governor.

On Monday, September 11, I called Mr. Morrill, Secretary of the Board, and told him that I thought there should be one minor adjustment to this understanding, and that is that we should be permitted to take at the close of business each day all or any part of the purchases made of the Home Owners’ Loan bonds because the Corporation wanted those for its Bond Retirement Account. He said that he was certain that there would be no objection to that as the System did not particularly care for the guaranteed issues and if we wanted any of those we could have them outside of the agreement referred to above.
CONFERENCE IN THE SECRETARY’S OFFICE AT 10:30 A.M.,
SEPTEMBER 12, 1939, ON THE SUPPORT OF THE GOVERNMENT BOND
MARKET BY THE FEDERAL RESERVE SYSTEM WITH PARTICIPATION
BY THE TREASURY

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Those present besides the Secretary were Under Secretary Hanes,
Dr. Burgess, Mr. Earle Beilie, Mr. Tom K. Smith, and Mr. Bell of the
Treasury staff; and Governor Harrison, Mr. Ransom, Mr. McKee, Mr. Draper,
Mr. Leach, Mr. Morrill, and Dr. Goldenweiser of the Federal Reserve System.

The Secretary outlined the reasons for the conference. He said
that he did not want to criticize the way the Federal Reserve System had
handled the bond market in the past, but we had been watching it very
closely and we had come to the unanimous conclusion that the time had
arrived when the market should be allowed to go down just a little faster
than during the past few days; that the purchases on the market by the
System should not be in such large volume; and that there should be no
restrictions whatever on the market, such as yesterday’s, when it was
closed approximately an hour earlier than usual. He said that he did
not believe we could see the stock market go up from 5 to 10 points a
day and the commodity prices substantially increase without expecting
the Government security market to seek much lower levels.

Mr. Ransom then gave a short resume of the Board’s action. He
stated that each day’s operation should be looked upon in its relation
to the previous day, and as he looked back over yesterday’s activities
he did not see that there was anything to regret; that they had allowed
the market to drop almost three-quarters of a point, and had given a
great deal of latitude to the Federal Reserve Bank in its operations.
He said that he would like to have the Chairman of the Executive Committee
(Governor Harrison) state the Committee's views in this connection.

Governor Harrison reviewed the market operations since August 30,
He stated that the Committee had discussed various possibilities, one
of which was to let the market ease off gradually with the System cushion-
ing it, or they could let the market go down one-eighth or one-quarter
of a point at a time with the System buying substantial blocks at each
step. He stated that the last alternative was adopted and that they
have followed substantially that plan during the ten days' trading period
ending yesterday. Instructions which the Committee gave to the Federal
Reserve Bank yesterday were to keep the longest bonds from falling below
101, which was 24/32nds below the stock exchange closing of the previous
day but only about 18/32nds below the previous day's over-the-counter
closing. He said the question now in his mind is whether the market
should be allowed to go below 101. He thought possibly that the market
had now reached the point where it was beginning to dry up and that it
should level off at present prices. This is, however, anybody's guess,
he said.

The Secretary then said that he would like to give the Board the
Treasury's viewpoint on the present market. He said that he had a group
of advisers (composed of Hames, Burgess, Bailie, Smith and Bell) who had given a great deal of thought to the whole subject; to the policies which had been followed during the past ten days, and the reaction of the market to these policies, and that without in any way criticizing past actions, we in the Treasury had come to the unanimous conclusion that the market should be allowed to seek its natural level just as fast as it is safe for it to do so and that it may be necessary to allow the longest bonds to go well below par before that level is reached.

Governor Harrison said that he did not attempt to speak for the Committee, but personally he agreed with that viewpoint.

The Secretary then asked Dr. Burgess if he would express his views on the market situation.

Dr. Burgess explained that he had been in close contact with the market; had gone to New York and talked with several people on Saturday and again on Monday and had spent a considerable part of the day in the Federal Reserve Bank. On Friday of last week he was of the opinion that the market had found its level at that day’s prices when the long bonds reached about 101-1/2. He said that he had to admit now that he was wrong in this opinion, but he was in full agreement with the idea expressed by the Secretary that we should immediately allow the market to seek its natural level. There seems to be a feeling around now that we are just suckers in taking the bonds that are being offered at prevailing prices. He feels that we are not attempting to find the bottom of this market fast enough. There are some people who
are talking of a 2-3/4 per cent level, while others are even going as high as a 3 per cent level. He would not attempt to say where that level should be, but he was quite satisfied that it should be considerably below the present market. He stressed the importance of establishing the natural level for this market as soon as we can because the Treasury has approximately $1,500,000,000 of financing to do before December 31.

The Secretary then asked the question as to what had been done with the municipals and Dr. Burgess said that they had as a general rule been allowed to run down pretty fast although the National City, in cooperation with the City of New York, had given some support to the bonds of the City by purchasing them for retirement funds. This, of course, has served as a cushion and has helped some of the other closely related securities.

Mr. Bailie pointed out that the Government market is a very definite factor in the municipal market also, and that so long as we maintain uncertainty in our market, uncertainty will also prevail in the municipal market.

Governor Harrison then said that it should be recalled that when the conferences were held last April there were some who felt that we should take the first shock in the bond market caused by the declaration of war, without any attempt to support it, while there were others who thought we should be active in the market from the beginning. The idea first expressed was not adopted by the Committee
and he thinks now that maybe that was a wise decision. The Committee this time adopted the program of dropping the market about one-eighth of a point at a time, buying at each level on the way down. Whether this was the best policy is anybody's judgment, but he thought that that has worked right well. On the other hand, he thought that maybe we had not allowed it to go down quite fast enough.

Mr. Draper then asked Dr. Burgess what he thought would be a good program for the Committee to adopt.

Dr. Burgess said that he could not suggest any very definite program in a situation such as now exists, because subsequent events would no doubt make it necessary to change it. Any program that the Committee might want to approve would have to be very flexible from the standpoint of the Federal Reserve Bank of New York in its operations. He said he would still try to keep an orderly market, but he would let it go down gradually and would not worry if it went to par or even lower. He felt that the System should not spend more than $20,000,000 in any one day from here on. He was inclined to believe that we should operate about as we had in the past (this would mean buying under the market a few 32nds and providing a cushion rather than pegging at certain levels as we have done in the past ten days).

The Secretary then asked about the limit of the $500,000,000 which the Committee was authorized to purchase. He said he understood that this limit is about exhausted. Governor Harrison stated that they had received another authorization to purchase an additional $500,000,000 so that the limit is now $1,000,000,000.
Mr. McKee then gave his opinion of the market situation for the past few days by stating that we have had an orderly market. He thought that we all would agree to that; that it had been allowed to go down on the average of about one-half a point a day, and whether that was fast enough was, of course, a matter of judgment. There was at times some evidence of outside buying but this buying did not materialize to the point where it was in sufficient volume to hold prices at the then levels. He said that they had reports from Presidents of Federal Reserve Banks, who in turn had been in touch with the banks of their districts, and he thought that the banks throughout the country as a general proposition had indicated to the Presidents of the Federal Reserve Banks that they were well pleased with the way the Federal Reserve System and the Treasury had handled the Government market. He said that yesterday the Committee had given the Bank in New York authority to hold the long bonds so that they would not go below 101 at the close of last night, which meant a drop of 24/32nds and the orders that went to the Federal Reserve Bank this morning were to the same effect. This would mean that the Bank had a leeway of 24/32nds in yesterday's operations, but in view of the fact that the bonds closed last night at 101-6/32 to 101-8/32, it only had a leeway of 6/32nds to 8/32nds in today's operations.

Mr. Ransom then undertook to state what he thought the views of the Treasury were and that they had been in accord with what had been done in the past. Governor Harrison said that he did not feel that
that was quite the case as yesterday they had 24/32nds leeway and today they had only 6/32nds leeway. Furthermore, when they first started buying bonds they bought in small lots and did not in many cases take all of the offerings. Most of the purchases were in $100,000 and $200,000 lots. Now they are taking everything that is offered, large and small. Furthermore, they find that the brokers on the stock exchange are soliciting selling, which is quite contrary to the understanding that has been reached with the dealers. The dealers all along have discouraged selling.

The meeting adjourned with the understanding that the Committee would operate through the day on the program approved early this morning and that at the close of business today it would confer at the Federal Reserve Board with representatives of the Treasury and then come to the Treasury about 4:15 for a meeting with the Secretary to discuss the policy that should be adopted for tomorrow’s trading.

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MEETING AT 4:15 P.M. IN THE SECRETARY’S OFFICE

All of those present at the morning meeting, except Mr. McKee and Dr. Goldman were present at this meeting.

Mr. Harrison said that he would give a resume of the day’s operations, after which he would like to ask the Secretary for his specific views as to just what should be done so that the Committee could return to the Federal Reserve Board and there discuss tomorrow’s policy.
He said that they had operated throughout the day with the idea of not permitting the longest bonds to fall below 101. They opened this morning at 101-6/32 to 101-8/32. There appeared to be no pressure on this particular issue, but there was a great deal of pressure on the 1955-60's, and it was necessary to purchase some of these securities. During the day the System purchased approximately $44,000,000 in securities, of which $6,000,000 were purchased on the stock exchange out of a total volume of only $7,000,000. He said that the noon prices firmed and the offerings slackened. Some of the bids which were placed in the market topped the Federal bids, but along toward the close of business these bids were withdrawn. It may be that the reason for this was that the bidders thought they might get these bonds at a lower price at tomorrow's opening.

Mr. Sproul told the Governor over the telephone today that he believes that the holders of Government bonds continue to be sellers and not buyers, and this may continue until the longest bonds reach par. He is in favor, in view of the action of the market today, of withdrawing Federal bids tomorrow for short periods and then going in to particular issues where they seem to be exceptionally weak; and the next day doing nothing to let the market take care of itself.

Mr. Harrison said that he was not so sure that he agreed with Sproul about the second day's operations. He thought this might do more harm than good. He was in favor of starting tomorrow with no bids across the market and confining our support to weak issues, and
then in small volume; and if large blocks of bonds come into the market, withdraw our bids and drop down a few thirty-seconds.

Mr. Harrison then turned to the Secretary and asked him how he felt about this proposition.

The Secretary said he had not changed his opinion from the morning meeting and he felt that we should operate about as we did last year, not trying to support the market at a given level; but that we should be in a position to withdraw, at the same time keeping an orderly market, allowing our purchases only to form a cushion.

The Secretary then asked various Treasury representatives if they agreed with that, and they all said they did. Mr. Smith said he had always been of the opinion that the market should drop faster than it had been allowed to, and that the Federal should buy fewer bonds than it has been buying. Mr. Bailie said he agreed with this general idea but he hoped that under no circumstances would the System buy a large volume of bonds.

The meeting then adjourned and the Committee returned to the Federal Reserve Board to discuss the policy to be adopted for tomorrow's operations.
Mr. Harrison called me at 5:15 o'clock this afternoon from the Federal Reserve Board and said that after discussing the matter, they had decided to begin their operations at the opening tomorrow morning on the same basis as today, with the only change a drop in bids on certain of the intermediate issues which do not seem to be in alignment with other issues. The Committee will then meet at 10:00 o'clock tomorrow morning to decide whether they will make any change in this procedure.